the
Freeman
Ideas on Liberty

AUGUST 1983

The Thatcher Revolution

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the Freeman
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John T. Murray

The Thatcher Revolution

On May 4, 1979, the British Conservative Party brought forth a new leader, selected democratically, and dedicated to the proposition that an ounce of personal effort is worth a ton of public charity. Mrs. Margaret Thatcher, in her sex, her origins and her convictions symbolizes a transformation in the Conservative Party, which had become associated in the public mind with stick-in-the-mud attitudes. The truth is that the British people as a whole had developed an alarming resistance to change. Enormous damage had been done by a succession of governments, mostly socialist, which, despite much revolutionary rhetoric, had acted on the assumption that the good old days could be resurrected by persisting in our bad old habits.

Mr. Murray is a long-time observer of the British economic and industrial scene.

Mrs. Thatcher ushered in a real revolution by challenging the two sacred cows of contemporary economic thought, the Keynesian notion that endless prosperity could be assured by giving state handouts to those who were out of work, and the Marxist view that this Utopia should be financed by expropriating the earnings and savings of those in work. The situation which led the Conservative Party to choose such a leader, and the progress she has already made in correcting that situation, is in many respects peculiar to Britain, but it has a wider relevance.

The British political scene differs from the American in one important feature. In Britain we have a Socialist Party, dedicated in its written constitution to the public ownership of the means of production, distri-

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bution and exchange. It is the political arm of the trade union movement and is largely financed by a special political levy on union members and a similar levy made on purchases in the associated national network of cooperative shops. The politically active unions, exercising monopoly control of labor in most industries, and enjoying remarkable immunity from normal legal process, are well placed to blackmail the rest of the community and to inflict great damage on the national economy.

To recognize the dangers inherent in this situation it is only necessary to recall Lenin's instruction to his comrades operating in foreign countries: "We must be able to agree to any sacrifice and even—if need be—to resort to all sorts of stratagems, artifices, illegal methods, to evasions and subterfuges, only so as to get into the trade unions, to remain in them, and to carry out Communist work within them at all costs."

Working-class movements tend to attract middle-class supporters whose compassion for the underdog is greater than their passion for Marxism. Many of such recruits, notably the late Hugh Gaitskell, have tried to wean the British Labour Party away from the pure milk of the socialist gospel to a watered-down version, in which belief in equality rather than public ownership was to be the acknowledged criterion of orthodoxy. The attempt failed, but because of it Britain has suffered from a succession of Labour governments which have adopted policies not only of nationalization and central economic planning but also of statutory leveling, principally though not exclusively, through penal taxation.

Equality vs. Liberty

Imposed equality and statutory expropriation strike at the heart of free societies. For enterprise, invention, daring and unstinting effort are the children of freedom—freedom to stretch for personal reward and to keep it. They are brought forth in an individual when the objectives to which they are harnessed are compatible with his own interest as he sees it. Tocqueville held that liberty and equality are incompatible aims, for men who are free will not long remain equal, and if you would have men equal you must first deprive them of their liberty.

Alongside these philosophical truths one may place some practical observations of human behavior. Men look after their own possessions much more carefully than they do those of other people. Even the idealists of the early Israeli Kibbutz had to abandon communal ownership of tools. Where no one owns, no one cares. The abuses prevalent in the British National Health Service are a public scandal. That which is free is seldom valued. Certainly people

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Mrs. Margaret Thatcher
(Photograph courtesy of British Information Services)

spend other people's money more irresponsibly than they spend their own. Economic disciplines are most poignant when they are most personal.

None of this is to disparage idealism. The ideal is the polestar of human progress. But ideals are realizable only by the self-reliant; parasites build nothing. John F. Kennedy touched the mainspring of national greatness when he said: "Ask not what your country can do for you. Ask what you can do for your country." Only a man who has met the challenge to look after himself will have in him the strength and ability to help others. Only a government which calls for the maximum effort from the vast majority of its citizens who are fit and able-bodied can command the abundance with which to care for the poor and unfortunate. Charity therefore begins at work, for the fruitfulness of our labors determines the scope of our generosity.

The child is father to the man. For half a century we have been teaching our children that capitalism is exploitation of the poor by the rich, that the wicked white man corrupted and enslaved the "noble savage," and that our nineteenth-century forebears devoted themselves to creating slums, overworking infants and waging war, with a relish which only the darkest insights of Dr. Freud can explain. Little mention has been made of the fact that capitalism alone created the modern world, with its unique abundance and greatly extended life span, by developing and harnessing science; and that our ancestors showed the world the way to civilized living by abolishing slavery, introducing public health regulations and establishing education for all.

The Myth of Utopia

The myth of primitive Utopia, propagated by such naive or phony anthropological studies as Margaret Meade's recently debunked *Coming*

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of Age in Samoa, has masked the fact that the "noble savage" was more corrupt, more enslaved and more diseased before he received the white man's visitation. The benisons the white man brought have been forgotten; a whole industry has been built on reminding the world of his shortcomings. We will not build a more peaceful world by cherishing these hateful distortions of history. The greatest danger to Western civilization comes not from the enemies without, but from the treason of intellectuals within, who have made our children ashamed of their heritage.

The typical British left-wing intellectual is visionary, sentimental and revolutionary in an amateurish way. He demands a fuller life for all as a natural right, and prefers mystic insight and apocalyptic utterance to mundane concern with productivity, industrial costs and market signals. He studiously avoids real problems and current events, preferring to concentrate instead on nostalgic adulation of the "pioneers" and impassioned, though somewhat imprecise, intimations of the millennium.

Such types usually come from, or enjoy, a bourgeois life style and practice professions or occupations in which their capacity to manipulate intellectual abstractions is almost never brought to the acid test of practical execution. They constantly underestimate the precariousness of the hard-won civilization which they are bent on changing, and project the assumptions of their own comfortable and sheltered lives into all their thinking, whether it be some Utopian idealization of working-class aspirations, or some purblind reliance on Soviet sincerity. They command the support of the dreamers, the failures and the misguided; all those in fact for whom the burden of reality has become too great and who yearn to cast it upon some miracle-working system or omniscient superman, so that they may explain away failure and frustration as someone else's fault.

All such potential Fascists are doomed, when they achieve office, to increasing invasions of the democratic process and destruction of individual freedoms as they struggle to make intractable humanity conform to their smooth premises. In the modern world the accession of such revolutionary simpletons to power is doubly dangerous, for as they recklessly destroy traditional controls and institutions, democratic capitalist society becomes increasingly unworkable and that anarchical situation develops in which the disciples of Lenin flourish.

No intelligent industrialist would underestimate the importance of industrial communications, or deny the historical role of the trade unions in improving them. Certainly in any

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society which calls itself civilized each citizen should have an important say in the terms and conditions under which he works. But entitling workers to a seat on the Board of Directors is another matter. In a world of universal educational opportunity anyone in our society can achieve Board status. Look around any company and you will find plenty of directors who came through the ranks.

Empowering Workers to Manage

The future of our industrial society depends on people earning power and responsibility, not being given it as a political or trade union perk. There is little sense in imposing directors on industrial boards in a free enterprise society where promotion is already open to talent and acquired expertise. Abraham Lincoln once pointed out that a sheep does not have five legs if you call the tail a leg, for you do not make a tail into a leg merely by calling it one. Likewise you do not make a worker into a director merely by calling him one.

There is a popular notion that we should buy industrial peace by giving workers shares in industry. But capitalism involves the clear recognition that the rewards of capital for denial of immediate satisfactions, for risk bearing, for acceptance of losses as well as profits, and for patient enterprise, are quite distinct and separate from the immediate and effectually contractual rewards of labor. This is a very fundamental distinction, a line which we blur at our peril. You do not, to use a socialist phrase, "bring ownership to the people" without issuing a license to expropriate the property of others, which is the essence of Communism.

Capitalism is about people earning their own money, saving some of it to acquire property, and subsequently being permitted to enjoy the fruits of that property, if any. The process has long been freely available to anyone in Britain who cared to participate. Significantly, only 3.8 per cent of the working population have sought to avail themselves of this opportunity to participate in industrial ventures. Clearly workers do not want the responsibilities and downside risks of shareholding but, understandably, they would not be averse to being given free entitlement to its rewards.

It would be difficult to conceive of a single measure better calculated to weaken the mainspring of capitalist free enterprise. Yet many decent people clutch at this purported panacea which, they think, would provide a viable half-way house between capitalism and communism. Such people, including an eminent religious leader who has recently taken to anathematizing both systems as if there were nothing to choose between them, should take note of Bertrand Russell's observa-

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tion that on the frontiers which run between capitalist and communist countries, the refugees are all moving in one direction.

Opening the Books

Another idea now favored by the British trade unions and their Socialist friends is that companies should be compelled to open their books to continuous inspection by union officials, in order that they may monitor management performance and, if they think fit, ask the government to intervene in the company's affairs. The proposal reveals a complete failure to comprehend the nature of management in a free market economy. Apart from the vital importance of commercial and technical security, which is recognized in Company Law by the limitations placed on information given to shareholders, they have not grasped the primary role of management which is to make decisions, and, which is more, to make decisions continuously and quickly, often on the basis of inadequate information.

The mercurial shift in the pace and pattern of commercial events seldom leaves top management time for deliberation and research. Under such conditions no manager can be infallible. The best one can hope is that he will be more often right than wrong. If, however, you place him in a situation where every decision he makes is the subject of continuous scrutiny and criticism and endless inquests—if you place him permanently in a kind of public pillory—then you will achieve only one result, he will cease to make any decisions at all. That is the end of all enterprise, the beginning of bureaucratic procrastination and industrial stagnation.

Coping with Uncertainty

One of the great delusions of the present century is that human rewards can be determined by what are usually referred to as prices and incomes policies. Adam Smith taught us long ago, and Hayek has brilliantly updated the lesson, that individual freedom is the prerequisite of economic efficiency. Only the fluid coupling of a free market system can keep the motor of demand and the wheels of production in continuous and fruitful harmony. What free individuals will collectively want cannot be foreseen because you cannot forecast fancy and you cannot anticipate innovation.

There is now incontrovertible evidence that centrally directed economies cannot supply the abundance and variety produced by free market economies. The fundamental principle of free market economics is that prices and incomes cannot be fixed but must flex to market requirements. Ignoring this principle has cost us dear, for labor is a commodity and in a market embarrassed with

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surplus labor the price of labor must fall to clear the market and stimulate new demand.

Wages have not fallen as they should have done in recent years because politicians infected with half-baked Keynesian notions have introduced all kinds of artificial dampers to price responses to market signals, preferring to keep workers in subsidized idleness rather than encouraging them to adapt to ruling economic conditions. Having thus inhibited the market coordinating and clearing functions, we are now faced with massive unemployment of workers who have priced themselves out of a job.

The bureaucratic mandarins who conspire with the politicians to design national plans for instant Utopia, will not understand that even if the feat were possible without doing violence to our liberty, it still would not please us. Human beings are perverse. They prefer self-government even to good government. They want freedom not only to do what they like but to do what the planners think they should not like. Socialists will have none of this, for at the heart of every socialist there is a censor, and Utopia must be drawn in their colors.

Remaking the Individual

If man as he is will not conform to their wonderful plans then additional plans must be drawn up to improve him so that he will conform. Thus the walls of the prison house are fashioned with kindly hands and all around us, in our social planning, our economic planning and our town planning, the monuments of misguided benevolence cast their shadows wherein no spirit dwells.

Paradoxically, in the planned economy the only equality which matters, equality before the law, what A. V. Dicey called equality of consideration, soon joins liberty in the collectivist dust bin. Justice resides in equal application of rules which reflect the moral sense of the community, and not in the selective application of regulations aimed at establishing an arbitrary interpretation of Utopia. When a Socialist talks about justice he usually means punishing those who do not conform to his plan.

You cannot expect much justice from those who share Proudhon's premise that private property is theft. The right to own private property and to have the state ensure the protection of that right is one of the oldest and most fundamental conditions of a civilized society. Yet collectivist administrations throughout the world have been for so long insidiously nibbling away at that right that we scarcely recognize the scale and importance of our loss. This is the root of the crime wave surging through our societies.

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Moral decay and economic nonsense flourish in our society under the camouflage of such high-sounding euphemisms as "redistribution of wealth," "the planned economy" and "the just society." The penal levels of taxation, effectively forced labor at the behest of the state, are excused as charity, or even as some sort of deserved penance for the wickedness of having become rich. Yet stealing in the name of charity is still stealing and discouraging the wealth makers is no service to the homeless and the hungry.

There is no system at once so self-adjusting and so productive as that which enables men of talent, thrift and effort to acquire capital which they can then plough back into the system, backing their own judgment with their own money. The cumulative investment decisions of such individuals, men of proven shrewdness, are obviously going to be more careful and more correct than the huge central investment decisions of bureaucrats investing other people's money.

The annals of British industry are filled with endless illustrations of this truth, from the successes of our merchant venturers and the rags-to-riches sagas of engineering geniuses like Lord Nuffield (Morris Motors) and Henry Royce (Rolls-Royce), to the chronic loss-making record of almost all our state-owned enterprises. Marx said that the only true wealth comes from work but his modern disciples in Britain deliberately discourage work, telling their supporters that by working they are only lining the capitalist's pocket.

Capitalism Triumphs by Offering Consumer Satisfaction

Fortunately capitalism has triumphed over this nonsense by showing the worker the jam, an incredible abundance of consumer satisfactions, ranged tier upon tier in our capitalist supermarkets, changing in assortment and specification continuously in precise response to the signals of consumer demand. That does not happen in Omsk. And despite all the egalitarian claptrap to which he has been subjected, the average man recognizes that his living standard and that of his children depends on more able men than himself and he is prepared to hire that ability.

The wonders of the modern world which surround him, the space ships and the nuclear power, the computers and the new world of genetic engineering, no less than the press-button magic which increasingly transforms modern living and which creates in the lay mind an awe and admiration for the technician and the scientist formerly reserved for the witch doctor and the high priest, are tangible rewards for which John Citizen will pay. Everyone pays the messenger bearing gifts. Capitalism

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is a cornucopia, a veritable horn of plenty.

Our experience, our traditions and our wisest philosophers are now delivering one clear message. The centrally planned state, with its egalitarian measures and its assumptions of economic omniscience is a recipe for economic failure, social sterility and political tyranny. The Thatcher revolution is therefore founded on three simple themes. Restore the authority of free markets. Encourage effort and discourage idleness. Reduce the role of the state and promote the sense of personal responsibility. Pursuing these policies she has, in four years of office, transformed the British situation.

The rate of inflation which as recently as 1975 was twenty-six per cent has been reduced to only five per cent. She has shaken up management and shaken out chronic overmanning, causing a dramatic rise in individual productivity and considerably reducing the time lost in industrial disputes. The complex process of denationalizing the basic industries has begun and the pruning knife has been systematically applied to the public services. Despite the inevitable transitional increase in unemployment caused by these new disciplines her personal popularity with the electorate remains high. Not since Churchill in war has Britain had a Prime Minister who so completely measured up to the challenge of the times.

IDEAS ON LIBERTY

W. M. Curtiss

THE removal of tariffs restores justice to consumers—to millions and millions of consumers. The fact that it may seem to result in a temporary inconvenience for a few producers is merely the correction of an injustice previously established.

Free trade is such a simple solution for so many of the world's ills. It doesn't require endless hours of debate in the United Nations or the International Labor Organization or the Food and Agriculture Organization, or any other world-wide debating society. It requires only that *one nation* see the light and remove *its* restrictions. The results will be immediate and widespread.

It isn't necessary for all nations to agree jointly and simultaneously to remove restrictions. If only one nation does it, some good is accomplished—both for itself and for its customers. A great nation, such as the United States, could do it and thus set an example for others to follow. It would not be meddling in the affairs of other nations; it would merely be looking after the best interests of its own citizens. And instead of being resentful, other nations would be grateful.

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Frederick C. Foote

— NO CONSISTENCY

"So what have you got against nuclear holocausts," I recently asked a student friend of mine wearing a little, orange "No Nukes" button. We both laughed, the message was clear: Nobody, obviously, wants a nuclear holocaust.

Nor does anybody delight in spending the billions of dollars needed to protect this country from the Soviet Union. I'm a little dismayed, then, by those "peaceniks" whose little buttons seem to imply that *they* have come to the conscientious realization that amassing weapons that can destroy the world is undesirable, whereas President Reagan and others, presumably, have not.

Rather than simply lamenting the arms race, though, there is a deeper issue here that I would like to address, and this issue seems to evade the consciences of the button bearers.

What is the philosophical basis of the arms race from the Soviets' point of view? It is this: that the use of aggressive force against some is unavoidable, or justified in the interests of the "greater good." I call it the "socialist premise" and it is the bankrupt yet uncontested philosophy of our day.

The Soviet Union provides the boldest expression of this philosophy in the modern world. For the "greater good" it is justified that the lives and properties of all Russians be subjugated to the State. Millions of individuals who would prefer to live for themselves, their children, or even their God are brutally murdered, detained in labor camps, or forced to lead lives of desperate servitude.

And Soviet "leaders," moreover, do not limit their warfare to the inhabitants of their country. Today, the Red Army is poisoning and slaugh-

Fred Foote is the editor of *Prospect* magazine published for Princeton University Alumni. He will be enrolled next year in Harvard Law School.

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tering innocent Afghans, letting the lifeblood of the Polish people, and, clearly, continuing its crusade to advance Soviet hegemony until it imprisons the entire free world.

The fuel that runs this machine is the philosophy that has caused wars in the past, and will cause them in the future: the philosophy that some individuals (blacks, Jews, the rich, whoever) are wholly or partially expendable for the benefit of others.

There is something obscene, therefore, in that those most vehemently opposed to the arms race *have accepted the doctrine that has precipitated it:* the socialist premise.

Consider the people who are most frequently seen wearing the "No Nukes" buttons. Are they not the same ones who argue for federal money to subsidize their educations, abortions, contraceptives, hospital bills, food stamps, fuel costs, retirements, camping trails, and solar roofs? Are they not the same ones who argue, in fact, on behalf of nearly every new federal program that comes down the pike, and ignore (or perhaps *relish*) the fact that these programs must be force-funded, at least in part, by the taxes of others?

Where there are "No Nukes" buttons, there often seems to be no consistent thinking either. Advocates of Marxist or even mixed economies cannot deny the philosophical premise they share with the Soviet Union. Nor can they deny that this premise similarly involves the sacrifice of other men's lives and properties in the name of the "greater good."

Laissez-faire capitalism, in contrast, is the only social system that consistently upholds individual rights and bans the use of force against peaceful citizens. It is the only system under which no group, however large, can use force against another group, however small. *In theory and in practice, laissez-faire capitalism is the only social system fundamentally opposed to war.*

Yet, blinded by their envy of the productive and the industrious and the deserving, the "peaceniks," their professors, and republicans and democrats alike, refuse to acknowledge the unprecedented material benefits and unparalleled moral justification of laissez-faire capitalism. Instead, they doggedly adhere to the socialist premise. They avert their eyes from the plunder and misery that cruelly scars the face of every socialist scheme from the command economies of the Eastern Bloc to the Indian reservations of America. And they wish, with their referendums, buttons, and marches, to outlaw war with *armed* enemies as they advocate war with the *unarmed* and *innocent* citizens of this country.

I'm looking for a little, orange button of my own: "No Force." Don't expect most "peaceniks" to snap them up.

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E. C. Pasour, Jr.

PRIVATIZATION: Is It the Answer?

DURING the past 50 years, there has been a pronounced shift in economic activity from the private to the public sector as government expenditures (local, state, and federal) increased from an eighth to a third of Gross National Product. In recent years, mounting budget deficits and dissatisfaction with both the quality and cost of governmentally provided goods and services—including education, law enforcement, roads, mail service, health care, public utilities, and welfare programs—have heightened interest in the appropriate role of government at all levels. This growing interest in the appropriate role of government coincides with the "privatization" movement.

Privatization involves the extension of market principles to goods and services currently financed and/or produced by government. Relying on mounting empirical evidence, it suggests that many activities currently performed by government could better be done by private firms. This paper explores the advantages of privatization and the limits of halfway privatization measures which are not rooted in private property and private control.

In his recent book, *Privatizing the Public Sector,* E. S. Savas cites evidence that private companies relative to government agencies can provide fire protection, mail service, garbage collection, health care and a host of other services at lower cost.[1] Savas discusses a number of ways to halt and reverse the role of government. Four of the most important ways of increasing the role of market forces in the delivery of goods and services are contracting out, franchises, user fees, and "load shedding."

Dr. Pasour is Professor of Economics at North Carolina State University at Raleigh. Some of the material in this article was adapted from his "Government Provision and Production of Goods and Services," *Tar Heel Economist,* North Carolina State University, Raleigh, April 1983.

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Market Processes

In contracting out such activities as refuse collection and fire protection services, government remains responsible for financing but selects one or more providers through competitive bidding. In contrast, an exclusive franchise is an award of monopoly privilege to a private firm to provide a particular service usually with price regulation by an agency of government. Electric power, gas and water distribution, telephone service and cable TV are often provided as franchise services. Whereas government pays the producer for services contracted out, the consumer pays the producer for franchise services.

In the case of user fees, users bear some or all of the cost of the good or service provided by government. During the past five years, for example, a number of cities have instituted specific fees to pay exclusively for garbage service.[2] The use of user charges is technically feasible wherever nonpayers can be excluded from the use of a good or service.[3]

Finally, "load-shedding" is complete privatization where government bows out and allows the private sector to produce the service and offer it directly to consumers. An example is municipal refuse collection where towns and cities get completely out of the garbage collection business and allow free competition. A recent proposal to have the federal government sell some of the publicly owned timber and grazing lands is another timely example of "load shedding."[4]

What are the advantages of privatization? Most people value the freedom to choose, and competition among suppliers of goods and services is important in maintaining consumer choice. It is ironic that while private sector monopolies in the United States are legally prohibited by antitrust laws, it is often assumed that firms competing with the Post Office and other public sector agencies constitute wasteful duplication. It is the thesis of this paper that increased market competition is important in improving mail service and many other activities currently financed and produced by government.

Expanding choice and diversity of consumer goods and services thus involves a strategy of increasing competition in activities where government is now dominant including mail services, education, Social Security, and other areas where competition, if not prohibited, is at least inhibited. In so far as it serves to increase competition, privatization has the potential to reduce the stultifying effects of government provision and production of goods and services. Consider some of the problems inherent in government financing and production of goods and services.

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Pricing Problems in Education and Other Government Projects

Private and secondary education is the largest function of state and local government in the United States as measured by size of budget or number of employees. Although state-run schools do not have a legal monopoly, parents of children in privately financed schools must pay twice for education—once through taxes to support state-run schools and again through tuition payments to the schools of their choice. Consequently, financial considerations induce many students to attend state-run schools. A range of proposals, including tax deductions for tuition expenses and compensatory tuition vouchers to low-income families, are increasingly being discussed as ways to increase competition and expand parental choice. Regardless of the merits of these particular proposals, they illustrate the fact that government *provision* of education (educational financing) does not imply government *production* of educational services (government-run schools). A failure to maintain the distinction between government financing and government production has undoubtedly contributed to the current strongly centralized educational system.

At least some of the increase in government production of goods and services is due to pricing methods used. When the price of a good or service is reduced below the market-clearing level, consumers are not able to obtain as much as they desire at the going price. Although shortages of government services including water, parks, other recreational facilities, and so on, are often taken as evidence that government is spending too little on these activities, shortages merely reflect prices arbitrarily set too low on the basis of current supply and demand conditions. That is, a shortage is created whenever price is arbitrarily held below the market-clearing level.

Government goods and services are priced below cost to users for at least two reasons. First, local and state expenditures for public transportation, health care, environmental protection, and other services have been increased because of revenue-sharing arrangements involving matching federal funds. In these cases, the cost borne by taxpayers at the local or state level to provide the service is not the full cost of the service. If an owner of a grocery store were to price milk or bread at half the normal price, customers would buy considerably more milk than when the price reflects the full cost. Similarly, the demand for governmental services at the local or state level is increased by "revenue-sharing" arrangements where citizens, ostensibly at least, can obtain a larger amount of goods and services for a given outlay.

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Of course the "shared revenue" involves a cost, but it is largely borne by other taxpayers. Communities which forgo revenue sharing and finance services on their own must pay twice—once through taxes to support revenue sharing and again through local taxes to provide the service in question. Consequently as long as the revenue-sharing system exists, every qualifying unit of government has a financial incentive to "get its share."

Second, even when financing occurs fully at the state, local, or federal level, publicly provided goods and services such as water, garbage collection, libraries, parks, golf courses, and so on, are often underpriced due to political considerations or equity reasons. There is a strong feeling on the part of many people that water, education, and other "necessities" should be provided below cost to assure that the service is provided to lower-income groups. In addition, since the quantity demanded of a product is greater the lower the price, there are advantages both to political incumbents and to government employees in pricing goods and services below cost. Thus, water, museums, recreational facilities, governmental publications, and other collectively provided goods and services are frequently underpriced regardless of the income level of the recipient. Users are then induced to demand "too much" of these goods and services.

The preceding discussion implies an expanded role in the use of user charges, where nonpayers can readily be excluded, for a wide variety of government activities including such services as roads, bridges, airport landing rights, elementary, secondary, and higher education, water, refuse collection, museums, public parks and many other recreational facilities.

How about roads? Toll roads and streets are technically feasible but involve high transactions costs. However, technological improvements in electronic sensing devices permitting autos to be charged for the use of particular roads could greatly reduce the high transactions costs associated with toll roads and streets. Automated vehicle identification systems which would allow vehicles so equipped to bypass toll booths and be billed monthly are nearing commercial feasibility.[5]

There are also opportunities, as Savas suggests, to have private firms produce many of the services traditionally provided by government, including fire protection, mail service, health care, and garbage collection. In the case of garbage collection, for example, contracting out of residential collection has shown impressive savings: "Nationwide studies in the United States, Canada, and Switzerland, as well as regional studies in Connecticut and the Mid-

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west, have shown that government garbage collection is 29 to 37 percent more costly than private contract collection."[6] Thus, even if "load shedding" is not achieved, improvements can be made in the production and pricing of many government services.

Limits of Increased Efficiency

As shown below, however, it isn't possible to achieve the full advantages of "load shedding"—of private provision and production in decentralized markets—through the use of user charges, contracting out, franchise, and other half-way privatization measures. That is, there are limits in the extent to which the advantages of decentralized markets can be achieved in government provision and production, or in government monitoring of goods and services produced under contracting out and franchise arrangements.

Attempts to apply market methods to the provision and production of goods and services produced under the aegis of the state must overcome inherent information and incentive problems. Consider first the information problems confronting taxpayers and other citizens in monitoring prices charged for goods and services produced by government. Even if the price of water, garbage collection (or other service) is set high enough to prevent a shortage, there is no objective basis in the absence of competition for determining whether the price charged is too high. That is, the individual user in the absence of alternatives has no objective way to evaluate prices of government services such as garbage collection and fire protection.

The information problem is no less tractable in the case of government monitoring of prices of electricity and other utilities produced under government franchise. Any monitoring agency, presumably in attempting to set price on the basis of cost, only has access to firm accounting costs. These past outlays, however, have no relevance to today's decisions. It is the *expected* costs and returns based on *future* economic conditions which influence current entrepreneurial decisions. And, since the future is always uncertain, there is no reason to expect the outside observer in the monitoring agency to make the same assessment of these conditions as the decision-maker in the regulated firm.

The incentive problems associated with government financing and production of goods and services are no less formidable than the information problems just discussed. In competitive markets, decisions are made on the basis of expected profits or losses, and the conduct of the entrepreneur is constrained by profit considerations. In order to reap financial rewards, the private entrepreneur must successfully antici-

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pate consumer wishes and satisfy them at a competitive price. The market process provides an incentive for good performance and a mechanism to reallocate resources to those best able to use them. Thus, the businessman is induced by profit reasons to hire competent labor, to economize in purchasing inputs, to price products competitively, and to maintain product quality. In the words of Ludwig von Mises:

> Because this is so, there is no danger in leaving important decisions to his discretion. He will not waste money in the purchase of products and services. He will not hire incompetent assistants and workers; he will not discharge able collaborators in order to replace them by incompetent personal friends or relatives. His conduct is subject to the incorruptible judgment of an unbribable tribunal: the account of profit and loss.[7]

The situation is likely to be quite different under government financing, production, or monitoring. Government agencies are generally not profit-seeking enterprises, and profit and loss considerations have relatively little effect on production and marketing decisions. That is, bureaucrats and politicians do not face incentives that foster good performance. The results of central planning whether for land, garbage collection, production of electric power, or for the entire economy are clear. Resources publicly owned or controlled cannot efficiently accommodate consumer wishes when contrasted with private ownership and control.

Even if information problems could be overcome, incentive problems would prevent the efficient use of resources allocated through central direction.[8] In contracting out or franchise arrangements, for example, opportunities for financial gain by decision-makers in government agencies are created by the method of selecting the firm to provide the service. Thus if government selects only one supplier for a service—whether it is for bus transportation, refuse collection, cable TV or some other service—the potential windfall gains to the firm obtaining the franchise provide an incentive for firms to engage in bribery and other "rent-seeking" activity and for public officials to respond.

Furthermore, firms operating under profit controls have an incentive to use the controls to their own advantage. In the case of a firm operating under government franchise where price charged is to be based on production cost, for example, management has an incentive to inflate costs by padding expense accounts, by taking expensive business trips, and by taking returns in the form of such nonmonetary perquisites as lavishly decorated offices including thick carpeting, expensive furniture, expensive paintings, and so on.

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Similar information and incentive problems are also endemic in the "scientific" approach to management of public land. The aim of the early conservation movement in the United States was to introduce "scientific management" into government.[9] If government is to function efficiently, according to this view, politics must be confined to specifying general policy directions, leaving the actual administration to skilled professionals. In view of the information and incentive problems inherent both in government production and in governmental monitoring of private production, widespread dissatisfaction with the results of "scientific management" of rangelands, forests and other publicly owned lands is not surprising.

Conclusions and Implications

Savas, after analyzing a number of studies comparing public and private provision of services, concludes that ". . . those who believe on a priori grounds that private services are best can find considerable support for their position."[10] Information and incentive problems are endemic in *all* non-market production and financing arrangements. First, as described above, there is a separation of power and knowledge—creating information problems. Those in power do not have and cannot obtain the information which is automatically conveyed between producers and consumers through market prices.

Second, in the provision and production of goods and services through government, there is a separation of power and responsibility creating incentive problems. Politicians and bureaucrats are typically motivated by short-run considerations such as the next election and are never solely responsible for their actions. Ramsey, in making a case for the privatization of the New York City subway system, emphasizes the incentive problems inherent in public ownership:

> Private management is far more efficient than public management, simply because of the difference in the pressures it faces. In publicly owned firms not only are there fewer and smaller personal incentives to be efficient but the politically expedient response, which tends to solve today's difficulty at tomorrow's expense, is ever present. This is because the time horizon for the payoff from political decisions is very short, often less than a year and seldom greater than a couple of years. Better for the politician to curry favor now and leave the problems to the next administration, the next generation of users.[11]

It is not possible to obtain the advantages of competitive markets in government provision or production of goods and services. While shifting productive activities from the federal to state or local governments along with the adoption of user fees,

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contracting out, franchises, and other quasi-market arrangements may improve collectively provided or produced goods and services, these arrangements do not and cannot provide the incentive and informational advantages of load shedding—that is, of decentralized competitive markets.

Competitive markets are rooted in private property, and there is no way to simulate competitive conditions under conditions of government financing or government production. F. A. Hayek and Ludwig von Mises, in the economic calculation debate, demonstrated that the concept of markets without property is a "grand illusion" and that economic calculation is impossible unless markets are organized on the basis of private ownership of property. Thus, while the efficiency of government activity may be increased by the imposition of user charges, by maintaining flexible prices to eliminate shortages and surpluses, by contracting out and franchise arrangements, or by other half-way privatization measures, there is no reliable benchmark against which to compare governmentally produced goods and services in the absence of private property.

In short, regardless of whether the economic problem concerns land use, garbage collection, electricity, milk, or another good or service, there is no other way to achieve the benefits of decentralized competitive markets. Privatization, as a way to avoid the information and incentive problems inherent in government ownership and control, requires private ownership and control.

—FOOTNOTES—

[1]E. S. Savas, *Privatizing the Public Sector* (Chatham, N.J.: Chatham House Publishers, Inc., 1982).

[2]Robert W. Poole, Jr., "Municipal Services: The Privatization Option," The Heritage Foundation, *A New Federation Task Force Report* No. 238, January 11, 1983.

[3]Where a service, if provided, will benefit nonpayers as well as payers, each individual has an incentive to "free ride"—to accept the benefits of the service provided by others without paying the cost. This "free-rider" incentive (arising only when nonpayers cannot be excluded) is a major justification for government provision of law and order (including national defense).

[4]Steve H. Hanke, "Privatize Those Lands," *Reason*, Vol. 13., No. 11, March 1982.

[5]R. S. Taylor-Radford, "Rush-Hour Remedy," *Reason*, Vol. 13, No. 9, January 1982.

[6]Poole, *op. cit.*, p. 6.

[7]Ludwig von Mises, *Bureaucracy* (New Rochelle, N.Y.: Arlington House, 1969), p. 35.

[8]For a discussion of the adverse effects of the subsidy-masked "low" price of education see: Ernest G. Ross, "The Price of Education," *The Freeman*, February 1983.

[9]Robert A. Nelson, "Making Sense of the Sagebrush Rebellion: A Long Time Strategy for the Public Lands" (paper presented at the Third Annual Conference of the Association for Public Policy Analysis and Management, Washington, D.C., October 23–25, 1981).

[10]Savas, *op. cit.*, p. 111.

[11]James B. Ramsey, "Selling the New York Subways," *National Review*, February 4, 1983, p. 115.

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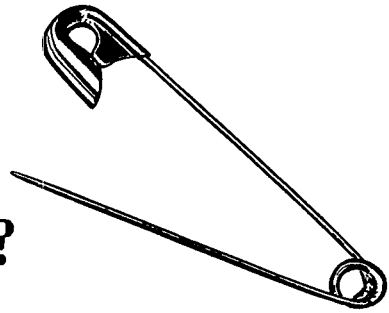
Dennis Bechara

Is Forced Sharing a Panacea?



DETRACTORS of the free market proclaim that most social problems may be solved through the political process of coercive income redistribution. It is often pointed out, for example, that if the government had additional powers to redistribute income, many existing social problems would disappear. This criticism of the workings of the market order rests on a vast oversimplification.

Social problems have a number of causes, many of which are the result of previous government interference. For example, unemployment is, in large part, a result of the labor laws and minimum wage structure. It is naive to think that government spending will eliminate unemployment while the laws that created the unemployment in the first place are left in effect. The result would be a misallocation of resources in the economy, not a higher productivity from redistributive policies.

This does not mean that government is powerless to eliminate unemployment, only that the programs generally followed have been erroneous. So it is with the majority of the other social problems common in the world today. Most of these problems—usually a shortage or a surplus of goods and services caused by price controls—would be eliminated if the controls were withdrawn. However, by advocating a spending program, the politicians give the impression of doing something positive to eliminate the problem—and loyalties are inevitably created. There is a self-interest on

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the part of the politicians to continue the "spend and spend, tax and tax, elect and elect" practices.

It is imperative to address the resolution of social ills with an analysis of both the pre-existing structural barriers as well as the proposed redistributive solutions. Many of today's economic ills may be traced to diverse governmental interferences in the workings of the market. But it may be more instructive to visualize some of the effects that redistribution or spending policies have on the economy.

It is customary for economists to analyze the market sector by sector. However, all sectors of the market are interrelated. Specifically, consumer behavior affects the availability of consumer goods, the allocation of the factors of production, and individual income. When the government interferes in any one of those areas by engaging in redistributive policies, it inevitably sets off disturbances in the other two.

Transfer of Factors of Production

When a demand exists for a particular consumer good, entrepreneurs are quick to transfer some factors of production toward this more profitable use. For instance, if demand increases for furniture, entrepreneurs will invest capital in those areas which provide the natural resources for the production of furniture as well as in the manufacturing process. The demand for the factors of production is therefore derivative of the demand for consumer goods.

Similarly, income is generated when entrepreneurs are able to successfully serve consumers. The greater the popularity of goods and services provided, the higher the income earned. High profits in an industry signal competitors that the business is attractive. Cost-saving measures are brought about by the profit incentive, all to the benefit of consumers. But what happens when these market relationships are severed by the political process of income redistribution?

When income is expropriated and redistributed, consumer choices are inevitably frustrated. The severity of the consequences depends on the magnitude of the confiscation and the universality of the measures. If certain areas of production are more heavily taxed than others, profit margins will decrease accordingly, and there will be less incentive for outsiders to enter the field and compete. If taxes are levied against consumer goods, the public will tend to readjust its demand. Consumers may substitute other goods, or they may curtail their demand for other things in order to purchase the goods which are more costly due to the tax. Or, marginal producers may withdraw from the field as demand slackens.

The range of adjustment is as varied as the forms of governmental

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taxation. Subsidies play a significant role in the behavior of consumers. Goods that would not otherwise have been produced in the quantities that the governmental authorities deem necessary are demanded because of the attraction of the subsidies or because of the protection of a tariff. These devices distort communications between consumers and producers at the expense of the taxpayer.

The Impact Upon Society of Market Interventions

Society in general is affected by interventions in the market place. Goods that consumers want are not being produced because of the governmental measures taken to alter production. Factors of production are misallocated, and their further supply becomes dependent upon the governmental program that generated the shift in demand. Therefore, political forces are created that lobby for the maintenance and expansion of these programs. If the government eliminates a subsidy or a tariff for a particular product line, the voters are reminded that many families will be affected with the certain loss of jobs that a shift in demand would create.

The true issue, however, will be muddled by these arguments. The question is whether one respects consumer freedom of choice, or substitutes governmental controls. Invariably, the groups most adversely affected by a change in governmental policy will lobby for the retention of measures that benefit them. This activity, however, does not detract from the real issues; it only serves to bring some of the ugly consequences of intervention into focus.

Thus, we see that redistribution of income can take the form not just of taxing Peter to give to Paul, but of subsidizing goods and services, controlling prices, and engaging in countless other interventionist policies.

One of the most common examples of government intervention is in response to the charge that capitalism fosters bad literature. The frequent solution to this supposed problem lies in government promotion of the fine arts. The argument is that the economic system does not accurately reflect the wishes of the people. The free market economy tends to produce that which is demanded by consumers. What the critics are really saying is that they disagree with the public's choice. Their solution is to persuade the public that the fine arts are preferable to whatever is being produced.

Capitalism as a system is at fault in the same sense as a mirror is at fault: it reflects a reality. The viewer may wish the mirror to portray a more handsome face, but it can only reflect that which is in front of it. The free market produces that which

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the public demands. If the government intervenes to change the extent of production, it only succeeds in substituting goods that are less desirable to the public than those that would have been produced. Far from eliminating social ills, the policies of redistribution exacerbate new ones by misallocating scarce resources.

Schemes that redistribute the wealth affect not only the victims of the programs but also the public at large. Measures taken to foster some special behavior may very well bring forth unforeseen consequences. Additionally, the idea that income may be divorced from the rest of the market forces is based on the false assumption that income will always be generated as if from a machine running on an inexhaustible supply of fuel. Yet, the reality is that the incentive to obtain a profit is the fuel that generates income. Income redistribution policies only serve to deplete the efforts aimed at the production of wealth. Instead of ameliorating social evils, redistributive policies lower productivity, misallocate resources, and create new victims of the political process.

Redistributing the Wealth

IDEAS ON LIBERTY

WHAT's wrong with redistributing the wealth? Actually, there's nothing wrong with sharing wealth as long as it is done voluntarily. In a free economy, wealth is redistributed myriads of times daily. It is the *forced* and *compulsive* redistribution which is wrong—the element of coercion. When tax laws are imposed not to raise revenue but to redistribute wealth, such laws are wrong.

Why redistribute wealth anyway? What would be the purpose of such an act? If the purpose were to destroy initiative and incentive to work, that purpose would surely be fulfilled. Under continuous equalization of wealth, there would be no will to work. If anybody created more wealth, it would automatically be taken and redistributed to maintain the state of equality. With no incentive to create—and indeed a penalty in the form of confiscation—the total to be divided among all the people would steadily go down, as would everybody's equal share. As food supplies were eaten and as clothing and tools and machinery wore out, we would soon reduce ourselves to a state of equal poverty.

EDWARD A. ROSSIT

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Charles Dykes

Is There a Moral Basis for Capitalism?

THE contemporary indictment of capitalism usually takes two basic forms. First, there is the *economic* indictment. Those who make the attack from this perspective argue that capitalism is not viable because it is afflicted with insurmountable contradictions which result in a permanent state of crisis, or problems which can only be temporarily resolved by palliatives. Second, there is the *moral* indictment. Capitalism, according to this view, is the exploitation of man by man, the profit motive and the rule of money supreme, with an inevitable cruel injustice everywhere manifest.

The claim that capitalism provides the best economic structure for man's moral development, long a virtual article of faith in American life, is met with derision these days by politicians, journalists, university professors, and theologians. Clergymen daily rage with indignation against the "evils" and "injustice" of the competitive market. Capitalism is, so we are told, "intrinsically immoral." "Soul dead, stomach well alive," was Thomas Carlyle's estimate of the market system, and all the cultured despisers of commercial civilization are in hearty agreement.

The market order, we are informed, promotes a materialistic view of life. "Things," Emerson once said bitterly, "are in the saddle and ride mankind." The capitalistic form of economic organization is said to be dehumanizing. Owen Chadwick has brilliantly summarized the thought of Karl Marx for us on this point: "The structure of society derives from

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the work which men do. In bourgeois society the worker provides goods, to serve not the needs of men but the needs of the market. Then, instead of men controlling goods, goods control men; so that, the more workers produce, the wider the gap between rich and poor. This ill-arrangement may be called the 'alienation' of man's work. A man's work is 'natural,' part of the structure of living. Therefore the alienation of his work creates an alienation of man from nature, from his fellow-worker, even from himself. Economic nonsense pushed all relations awry. Men and women become things and treat each other like things."[1]

Hostility Against Capitalism

The animus of many theologians against capitalism is especially bitter. Michael Novak gives a not uncommon example: "Jurgen Moltmann portrays capitalism as though it were outside the law, destructive of true community, reducing all relations to impersonal monetary relations, inspiring wolflike animosity between man and man and irrational in its pursuit of growth for the sake of growth and work for the sake of work."[2]

Writing in *The Christian Century* in 1976, Bruce Douglass admits that most of the political and economic comment coming from theologians has a socialist flavor. He then goes on to insist that defenders of capitalism are engaged in what amounts to a justification of injustice, selfishness, and other forms of sin. The case for socialism, we are given to understand, is primarily concerned with justice, and is thus exactly the opposite.

What of these charges? Does capitalism "make the world free for sinners," at the same time relentlessly alienating man from his fellows and himself, even as it dehumanizes him? Does it unleash, and then callously celebrate as virtue, a rampant and rapacious selfishness? Is it oblivious to, indeed destructive of, the demands of justice in human relations? Is it, in sum, without moral justification, and thus guilty as charged of being "intrinsically immoral"?

It is our conviction that these charges are entirely fallacious. Not only that: We are soundly convinced the market economy is securely anchored to the Judeo-Christian revelation. Neither the caricatures of its enemies, nor the perversions of its friends, can alter this fact.

A System of Relationships

The critics are right when they demand that our economic system rest on a firm moral basis. If it can be shown that it does not, then we should abandon it immediately and seek to establish a more just order. At the outset, however, important distinctions and clarifications must

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be made. Arthur Shenfield calls attention to one of the most vital, viz., "the economic system called capitalism is a system of relationships. It is a composition of markets, and markets are by definition systems of relationships, not purposive bodies. It follows that we can apply the tests of morality to capitalism only by considering the behavior of individuals who operate within it, not as a system capable in itself of being moral or immoral."

It is Shenfield's contention that since capitalism is "a system of relationships it cannot be moral or immoral in the sense that a purposive group can be. . . ." He denies, however, that such a system is morally neutral. "If its essential characteristics on balance positively nurture or reinforce moral or immoral individual behavior, it is a moral or immoral system in its effects."[3]

Furthermore, we must repudiate the erroneous tendency of many critics to attribute to capitalistic economic phenomena, human behavior, social ills, or political crimes to which history bore witness before the birth of the capitalist system. And again, enemies of capitalism are prone to identify the market economy with society as a whole. For them, capitalism forms and permeates the whole of society, and in so doing destroys and corrupts human relationships other than those contracted for strictly economic purposes. But the truth is, the competitive market is only a part or aspect of any society.

"The market," as John Davenport correctly observes, "is not an end in itself, but the means to higher ends." The market is merely an element in a society which transcends and extends far beyond it. The market is but a method of recording consumer preferences and allocating resources, an information system which transmits knowledge spontaneously through the signals sent out by prices.

Allocation of Scarce Resources

All economic goods are, by definition, scarce, while the hunger of man for these goods is nearly infinite. Thus a workable economic system concerns the allocation of scarce resources—e.g., labor, materials, or capital—to human wants. Socialism assigns to a supposed omnicompetent state the task of deciding what people *need*, and then the development of a master plan as to what goods will be produced in what amounts. In the market economy, on the other hand, consumers bid on what they *want* via the price mechanism.

No matter what system a society employs for organizing its economic life, certain common decisions must be made. For example, all economies must decide what goods will be produced, and how the fruits of this

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production will be distributed. All economic systems coordinate men and materials in making these decisions in some way. The market system makes these decisions and achieves this coordination through an institution of private property rights and voluntary exchange.

From the days of Adam Smith, advocates of the free market have argued that market processes have a strong tendency to equate public benefits and private profits. Following the argument of Bernard Mandeville's *Fable of the Bees,* Smith held that private vices—e.g., greed—are converted into public benefits.

A Harmony of Interests

There is, in a free market, a harmony of interests between the public and the private. Does this imply, then, that the free market, in some way, nurtures or reinforces unjust rather than just behavior? Not at all. The free market economy is the most productive form of economic organization just because it is most consistent with eternal moral principles. The economy of any society is integrally related to the moral principles and consequent values to which the society is committed and substantially adheres. Or, as Paul Johnson puts it, "The level of social morality is directly linked to the performance of the economy."[4]

Consider the testimony of Wilhelm Roepke, one of the greatest economists of the twentieth century. He wrote: "One of the most dangerous errors of our time is to believe that economic freedom and the society which is based upon it are hardly compatible with the moral standards of a strictly Christian attitude." In Roepke's view, "the very opposite of this popular belief is true: the strongest reasons to defend economic freedom and the market economy are precisely of a moral character. It is economic freedom and the market economy which the moral standards of Christianity require, not the opposite economic system. At the same time, however, we have to say with equal force that economic freedom and the market economy require these moral standards. One conditions the other."

Roepke understood that "Socialists and non-socialists are divided by fundamentally different concepts of life and life's meaning. What we judge man's position in the universe to be will in the end decide whether we believe our highest values to be realized in man or in society, and our decision for either the former or the latter will also be the watershed of our political thinking. Once more we find Cardinal Manning's famous statement to be true: 'All human differences are ultimately religious ones.' " The conclusion: "we should stand for a free economic order even if it implied material sacrifice and if socialism gave the certain prospect

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of material increase. It is our undeserved luck that the exact opposite is true."[5]

The Family Unit

While keeping in mind that the market economy is only a part or aspect of society, we do contend that capitalism is more than just an economic system of voluntary relationships. Specifically, it is an economic system based on the right of private ownership of property and a free market for goods and services, consistent with the second table of the moral law.

The fifth commandment of the Decalogue, "honor thy father and thy mother," implies that the family, not the state, is the basic social and economic unit of society and should be the strongest. R. J. Rushdoony has noted that "throughout history the basic welfare agency has been the family. The family, in providing for its sick and needy members, in educating children, caring for parents, and in coping with emergencies and disasters, has done and is doing more than the state has ever done or can do."[6] A society characterized by a significant degree of economic freedom is always a society dominated by strong family units who provide for their own. This contrasts with socialism, whose basic goals, if realized, would destroy the family in the interests of the larger collective.

The sixth commandment, "Thou shalt not kill," is, according to John Chamberlain "simply the other face of Locke's and Jefferson's 'unalienable' right to life."[7] John Calvin explained it this way: "The sum of this commandment is, that we should not unjustly do violence to anyone." "Thou shalt not kill" is thus a generic expression which also forbids wounding, violent threatening, and any unjust coercion by an individual, group, or state that would restrain legitimate liberty.

Economic freedom is born and thrives only in nations or communities where reverence for all human life is widely held to be a supreme value, where the personal safety of the neighbor and his family is generally regarded as inviolably sacred, and where compassionate individuals, acting either alone or through voluntary associations, are encouraged to offer substantial assistance to the poor and needy. This differs radically from the command society of socialism, whose adherents are frequently found not only approving but actively promoting violence, terrorism, and the destruction of the middle class. In such societies (and this would include the Welfare State) "compassion" is institutionalized, and becomes a monopoly of the state.

The seventh commandment, "Thou shalt not commit adultery," teaches us, as does the ninth commandment, that contracts must be honored and double-dealing scorned. "The his-

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toric link between the biblical idea of binding covenants and the Western idea of binding contracts," writes Gary North, "is obvious enough."[8] The very idea of contracting for joint benefit presupposes a high level of moral integrity and faithfulness on the part of all the parties engaged in the transaction.

In socialism the paternal state seeks to vitiate the necessity for the sanctity of contracts by substituting its omnipotent controls and decrees. Opportunity for moral development and the growth of trust between free men is thereby suppressed. The socialist ethic in this area is readily illustrated in the attitude of contemporary socialist bloc nations toward the fulfillment of treaty obligations. The Soviet Union, for example, has violated every treaty it has ever made. Lacking an unchanging moral foundation, there is nothing in the socialist ethic to condemn such action.

Private Ownership

The right of private ownership is based on the eighth commandment, "Thou shalt not steal." According to the Westminster Shorter Catechism, this commandment requires "the lawful procuring and furthering the wealth and outward estate of ourselves and others." The commandment forbids "whatsoever doth or may unjustly hinder our own or our neighbor's wealth or outward estate." The eighth commandment "means that the Bible countenances private property—for if a thing is not owned in the first place it can hardly be stolen."[9]

Harold Lindsell, in the course of explicating the hatred of socialist intellectuals for private property, unmasks the latent hypocrisy usually present. He observes that "ideas are property too. Professors who write books to expound their ideas secure copyrights which protect their words against plagiarism. *Das Kapital* by Karl Marx was protected by copyright. Just try to find a new book published by a socialist which is not protected by a copyright! The simple truth is that socialists consistently violate their basic premise about private property in areas such as this so that they may profit from their labors!"[10]

The ninth commandment forbids lying. The whole idea of a free market implies that the parties to this voluntary exchange will not deceive each other. The doctrine of the harmony of interests in freedom largely depends for its working upon substantial voluntary compliance with this command.

Lying is an inescapable concomitant of socialism. The socialists must forever condemn profits, for instance, and the profit motive. But the truth is, socialist nations are just as profit-minded as are capitalist nations. The difference: In capitalist

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nations the individual reaps the profits and decides how they will be used; in Socialist nations the state reaps the profits and determines what to do with them. So lying, even about its basic tenets, is crucial to socialism.

The tenth commandment, "Thou shalt not covet," "means that it is sinful even to contemplate the seizure of another man's goods—which is something which Socialists, whether Christians or otherwise, have never managed to explain away."[11] Coveting is a root of all social evil.

How Envy Destroys

Envy, a central aspect of covetousness, involves not only the desire to possess another's property, but also—and perhaps more heinous—the desire to see another's wealth or station reduced to the level of one's own. "Envy is ineluctable, implacable and irreconcilable, is irritated by the slightest differences, is independent of the degree of inequality, appears in its worst form in social proximity or among near relations, provides the dynamic for every social revolution, yet cannot of itself produce any kind of coherent revolutionary programme."[12]

Rushdoony points out that the tenth commandment "forbids the expropriation by fraud or deceit of that which belongs to our neighbor. The tenth commandment therefore does sum up commandments six through nine and gives them an additional perspective. The other commandments deal with obviously illegal acts, i.e., clear cut violations of law. The tenth commandment can be broken within these laws." This law forbidding dishonest gain "is directed by God, not merely to the individual, but to the state and all institutions. The state can be and often is as guilty as are any individuals, and the state is often used as the legal means whereby others are defrauded of their possessions."[13] Socialism, through its employment of the police powers of the state for the purpose of expropriating the wealth of producers to transfer to nonproducers, is a form of institutionalized envy.

Christ summarized the second table of the law like this: "Thou shalt love thy neighbor as thyself." Shenfield observes that we usually understand the command to love our neighbor "to mean to heal the sick, to succor the poor, to relieve human distress of all kinds, and the like." He then suggests that whatever else such love means, "It must mean that one wishes one's neighbor to have what one most values for oneself. . . ." In the final analysis, "what we want above all for ourselves, and which therefore we must accord to our neighbor, is freedom to pursue our own purposes."[14]

Our conclusion, then, is that the

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claim that capitalism is inherently immoral is not only false, but the exact opposite of the truth. Only the much-maligned capitalism, of all contemporary forms of economic organization, is founded upon and consistent with an immutable moral foundation.

—FOOTNOTES—

[1]Owen Chadwick, *The Secularization of the European Mind in the Nineteenth Century* (Cambridge University Press, 1975), p. 64.

[2]Michael Novak, *The Spirit of Democratic Capitalism* (New York: Simon & Schuster, 1982), p. 262.

[3]Arthur Shenfield, *Imprimis*, "Capitalism Under the Tests of Ethics," Vol. 10, No. 12, December 1981, pp. 1, 2, 5.

[4]Paul Johnson, *Enemies of Society* (New York: Atheneum, 1977), p. 191.

[5]All quotations from Roepke are found in "The Moral Necessity of Economic Freedom," Intercollegiate Studies Institute, Inc., ISI Brief Essay Series, No. 1. Reprinted by permission from *Christian Economics*.

[6]R. J. Rushdoony, *The Institutes of Biblical Law* (Nutley, NJ: The Craig Press, 1973), p. 181.

[7]John Chamberlain, *The Roots of Capitalism* (Princeton, NJ: D. Van Nostrand Company, Inc., 1965), p. 46.

[8]Gary North, *Chalcedon Report*, "The Yoke of Co-operative Service," No. 123, November, 1975.

[9]Chamberlain, *op. cit.*, p. 46.

[10]Harold Lindsell, *Free Enterprise* (Wheaton, Illinois: Tyndale House Publishers, Inc., 1982), pp. 52–53.

[11]Chamberlain. *op. cit.*, p. 46.

[12]Helmut Schoeck, *Envy* (New York: Harcourt, Brace & World, Inc., 1970), p. 247.

[13]Rushdoony, *op. cit.*, pp. 634–5.

[14]Shenfield, *op. cit.*, p. 6.

IDEAS ON LIBERTY

The Moral Case for Economic Freedom

THE most important part of the case for economic freedom is not its vaunted efficiency as a system for organizing resources, not its dramatic success in promoting economic growth, but rather its consistency with certain fundamental moral principles of life itself.

I say, "the most important part of the case" for two reasons. First, the significance I attach to those moral principles would lead me to prefer the free enterprise system even if it were demonstrably less efficient than alternative systems, even if it were to produce a *slower* rate of economic growth than systems of central direction and control. Second, the great mass of the people of any country is never really going to understand the purely economic workings of *any* economic system, be it free enterprise or socialism. Hence, most people are going to judge an economic system by its consistency with their moral principles rather than by its purely scientific operating characteristics. If economic freedom survives in the years ahead, it will be only because a majority of the people accept its basic morality.

BENJAMIN A. ROGGE

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Howard Baetjer Jr.

LASERS, HAROBEDS, AND WORLD HUNGER

WHAT do lasers have to do with world hunger? They help decrease it, that's what. Of course it is a complex story, though it all transpired in a remarkably short time. Development of the laser won a Nobel Prize in 1962, and less than twenty years later lasers were being used to level fields in the parched Humboldt River Valley of Nevada (among other places), to improve irrigation. When a field 1200 ft. long drops off at the rate of .21 ft. in every hundred, given the kind of soil they have in the Humboldt Valley, water released into the field at the high end will slide out just as evenly as can be and soak into the entire field in precisely the same amount all over.

The laser allows the rancher to get the fields absolutely flat, and dropping off at exactly the right rate. At one end of the field an instrument is set up and adjusted so that it emits a plane of laser light at exactly the right angle. This light is read by a sensor attached to a huge machine with a scraping blade and a reservoir of topsoil. When the ground rises up, the sensor tells the blade to shave the area down some; when the ground drops off, it tells the machine to dump some soil.

Once a field has been laser-planed, if the irrigator lets in the right amount of water at the right rate, irrigation will be perfectly even, and the alfalfa growing there will soak up the water and the hot Nevada sun, and grow up so thick and so fast that it looks like something out of Walt Disney Productions. And it will grow like that over every square foot of the field: all the way to all the edges, with no dry spots and no muddy areas the way there always used to be. It is an amazing thing, I assure you—I have cut both kinds of fields.

The importance of all this to world hunger is that alfalfa is terrific feed for livestock. By making alfalfa pro-

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duction more efficient, laser technology provides us a means of feeding more livestock, one source of food for the hungry of the world. Those fields produce an average of 37 and a half 135-pound bales per acre, three times a summer. That's 15,187.5 pounds of hay per acre.

When you figure that a healthy cow eats about 24 pounds of hay a day, that means each acre of those fields produces enough hay in a summer to feed a cow for 633 days, or a herd of 21 cows for a month. An acre, bear in mind, is smaller than a football field. A standard 40-acre field (almost all of which I could cut myself in a single ten-hour day) would yield enough hay to feed 70 cows for a year. That's a whole lot of milk and cheese and butter. The point is that if we could get more areas of the world producing the way the Humboldt River Valley does, the world hunger problem would start to disappear.

The Inadequacy of Redistribution

I use this little illustration from my own experience by way of disagreement with my college's World Hunger Committee, and similar groups which advocate redistribution as a solution to the world's dreadful problem of want. In our campus cafeteria there is a poster put up by the World Hunger Committee, which gives some figures about production, consumption and hunger in different parts of the world. It points out that we in the United States consume far more per person than people in other nations and concludes with this: "Redistribution is necessary for the future."

Though the World Hunger Committee is to be applauded for its concern and efforts to bring the problem to our attention, their poster does not point out the reason for the problem, and the solution it proposes is utterly inadequate and ill-advised. Hunger is not a distribution problem, and redistribution cannot possibly solve it. Hunger is a production problem; the only thing that can solve it is the political and economic change that will allow production to occur.

Redistribution as a "solution" to the problem of hunger is apparently premised on the assumption that there is only a certain amount to go around. Reallocating what food there is now in the world might, under ideal circumstances, alleviate the hunger problem for a while. It could never do away with it. Even now there is not enough to go around with any sort of bounty, and in any case the population of the world is growing. Relying on redistribution would mean resigning ourselves to progressively less and less for each as "the world's goods" were split up among more and more. This is an unnecessarily despairing response to the problem, for it is not true that

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"there is only a certain amount to go around."

The Productive Potential

Potentially, there is plenty to go around. There are many areas of the world which could be supplying food at tremendously greater rates than currently. Land presently in cultivation could be made to produce more; the crops grown there could be improved or replaced with others more suited to a given soil or climate; land presently out of cultivation could be made productive with irrigation, drainage, fertilizers and the like; planting and harvesting methods could be improved; transportation of crops to markets could be improved; refrigeration could reduce spoilage, and so on. The potential to improve production is, if not boundless, limited only by people's ingenuity, which has throughout history produced tremendous gains wherever it has been left free to work its miracles.

Consider the case of the ranch in Nevada. One hundred years ago, maybe much less, a lot of the land now bursting with alfalfa was desert, considered inarable. Nothing much grew there but sagebrush, and the Humboldt River flowed by at a distance, gradually evaporating and finally drying up completely in one of those amazingly barren Nevada salt basins. How did that land come to be such a cornucopia?

• Labor, for one thing. The first irrigation ditches were probably dug with picks and shovels, the first fields smoothed out as well as possible by hand, the ranchers filling in the low spots as well as they could by eye. Machines do most of the physical work now, but there is still a whole lot of labor in maintaining them, driving them, building fences, and the like.

• Tools, for another: picks, shovels and hoes were the staples at first, I suppose, and then mule-drawn plows and harrows, rudimentary surveying gear to help smooth out the fields, scythes for the harvesting and so on. Better techniques and materials contributed, too: fertilizers, irrigation by sections (with levees to keep the water level more even) and so on.

As time went by, the tools were improved, and for the same amount of labor the amount that could be produced increased steadily. With the internal combustion engine there came self-powered machines for digging the irrigation ditches, pulling the plows and hay wagons, and running the balers. With modern chemistry there came better fertilizers; biologists developed better strains of alfalfa; metallurgists provided cutting blades that kept an edge longer. With each step the same land and labor produced more hay.

Finally—most recently, I should say, for who knows what next year

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will bring—there came laser planes and harobeds (that's *Deborah* backwards, named after the wife of the man who invented them): truck-like machines which, with a scoop and a system of conveyors and platforms, pick up and arrange seventy bales at a time, carry them to the stack lot, and put them down neatly (if the driver is skillful!), to wait for the big flatbeds that will take them away to markets in four or five states. The newest harobeds at the ranch where I work have a little computer that keeps track of the bales and lays them together in an interlocking fashion that stacks better than was possible previously, reducing moisture loss. Step by step, improvement by improvement, machine by machine, the desert bloomed and burgeoned forth with ever greater quantities of hay.

This same kind of process can go on, according to the necessities of each climate and location, all over the world. Lands that are poor can become rich. People who now lean over all day planting rice shoot by shoot can go to other productive endeavors, leaving behind them ever fewer others, who will grow ever more rice with ever better machines, fertilizers and techniques. As the desert bloomed, so can the swamplands, the hillsides and the jungles (not to mention the good lands now way below potential) as long as labor and ever-better tools are applied to them.

The Heart of the Problem

From this point of view, we can begin to see why there are so many hungry people in the world. Certainly there is no lack of labor—in the poorest countries everyone works in every available way to try to make ends meet. The problem lies with the productivity of that labor. The back-breaking labor of twenty men working with trowels could not plant in a day what a single one of them could plant in the same time on a modern planter. The same twenty men with sickles could not harvest in a day the forty acres of alfalfa I can cut, sitting comfortably in the air-conditioned cab of a Sperry-New Holland "swather." Until they have better tools, the poor areas of the world will stay poor.

And this brings us to the heart of the matter. In order to have good tools, particularly the complex machinery that can bring about plenty, there must be a highly complex and efficient economic system in which production and maintenance of such tools is possible. There must be room for innovation, so that new, more efficient ideas may be put into practice. There must be hard work, so that plans are thoughtfully made and thoroughly executed. There must be efficient allocation of resources. There must be risk-taking, for in an uncertain world one cannot know what tools will work well and therefore be in demand. Inefficient or ob-

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solete processes and means of production must disappear, to make room for the newer and better. Above all, there must be the accumulation of capital: people must save money in large quantities, so that the funds will be available to support the complex and time-consuming process of machine-building.

This means, in turn, that there must be economic freedom. What must be avoided above all are the repressive economic policies that grow out of a redistributive approach to society. People cannot innovate by command, or when burdened by regulation. There is no incentive to work hard when the fruits of one's labor are taken from him (presumably to be "redistributed"). There can be no efficient resource allocation where prices cannot vary according to the laws of supply and demand. There will be no risk-taking if people are not allowed to realize the rewards of taking them. Inefficient and obsolete practices will not give way to newer and better when they are protected by government. And there will be no capital accumulation—the lifeblood of production—when savings are heavily taxed, when profits are taken away, when inheritance is outlawed. The redistributive ethos, which inhibits production at every step, could reasonably be said to be the fundamental reason why hunger persists in the world so long after the technical means of eradicating it have been available.

The Solution

If the tools necessary to feed the world are going to come into existence, the world must take a big political step forward. Government intervention in the economy must be abandoned. People must be left free to produce, and they must be allowed to have the benefit of their productivity. They must be allowed to own the means of production, to accumulate fortunes, and to trade freely with one another, without restraint by some authority which purports to know what is good for them better than they themselves.

Ultimately, the solution to the problem of world hunger lies in free enterprise, in the profit and loss system, in the private property order—in *capitalism*. Only in this kind of economic freedom are the marvelous creative abilities of human beings released. Redistribution is impossible without prior production. Redistribution could never have turned that Nevada desert green. But with swathers and balers and harobeds, with tractors and irrigation ditches and laser-planes—with the fruits of enterprise and accumulated capital, in short—the desert blooms. Redistribution is not necessary for the future; capitalism is.

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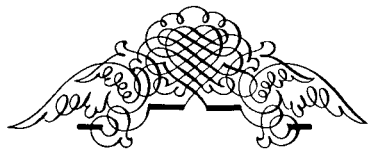
Clarence B. Carson



THE GENERAL WELFARE

"I wish the Constitution was not so vague," one of my daughters said. My first reaction to that was to deny that the document is particularly vague or, for that matter, obscure. "Why," she persisted, "does it contain a clause on the general welfare?" Actually, her question was a good one, and it gave point to her observation on the vagueness of the Constitution, if, as I think, I know where she was coming from, as they say. She is a college sophomore and is taking courses in American history and government, among others. Undoubtedly, she had hoped to find that the Constitution would be a bulwark against the claims of the welfare state. Yet, after studying it in her classes, she has been struck by its ambiguity and what appears to be the slipperiness of its phrases. It is my hope that what follows may throw some light on the troublesome phrase, both for sophomores and the rest of us as well.

The phrase, "general welfare," occurs twice in the Constitution. It occurs first in the Preamble, which announces that one of the purposes of the Constitution is to "promote the general Welfare." Since this is a statement of purpose, not a grant of power, it need not detain us beyond noting that it is there. The other use of the phrase, however, is much more significant. It is contained in the first sentence of Article I, Section 8, which lists the powers of Congress. Equally important, it is used in connection with the grant of the power of taxation, which, then as now, was reckoned to be an essential power of government. The relevant clause reads, "The Congress shall have Power to lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States. . . ." Clearly, Congress is empowered to levy taxes to provide for the general welfare. Viewed from the

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present perspective, this gives color, at least, to the idea that the welfare state has some constitutional foundation.

But that is to look at the matter wrong-end-to. What counts, in the first place, is what the words meant when they were used. "Welfare" is commonly used today to refer to or denote government programs to provide for the poor, the disabled, those without work, and those reckoned to be without sufficient means to provide for their basic wants. It is so used in such phrases as, welfare state, welfare programs, welfare worker, and welfare recipient. Until quite recently it was used in that way in the name of a cabinet rank department, namely, the Department of Health, Education and Welfare. This usage, however, was unknown to the makers of the Constitution. If they had intended to authorize what are nowadays called welfare programs, they would not have used the word, "welfare," to express that intent. It is the other way around: welfare programs bear that name to give the color of constitutionality to them. But let that wait for a bit.

What Americans began calling welfare programs in the late 1930s, or thereabouts, the Founders would have known by the name of "poor relief," so far as they were familiar with it at all. In England, tax supported relief of the poor was required under the poor laws, more specifically, the Elizabethan Poor Law, during the American colonial period. Poor laws were passed in the wake of the Reformation, the suppression of monasteries, and the confiscation of church lands. The destitute had received aid before that time from organizations within the church, but when much of the wealth of the church was taken away, the state took over last resort poor relief. Actually, Parliament simply required that local communities tax for and provide such relief.

A similar system took shape in the American colonies. In New England, relief for the poor was a charge upon the villages and towns, paid for from locally levied tax monies. Where the Anglican Church was established, poor relief was a duty of the parishes, and parishioners were taxed to pay for it.

Poor relief was hardly a sumptuous affair in the colonies, or, for that matter, in 19th-century America. Unless the person were totally incapacitated, more attention was given to reforming the poor, i.e., getting them to become productive and self-supporting, than helping them to fare well. For example, "The vestries in Virginia disposed of the able-bodied poor, destitute orphans, and the illegitimate children of indentured servants by binding them to masters as apprentices or servants."[1] Workhouses were set up in

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some places for those who had no visible means of support. In New England, "The town provided materials and tools with which the inmates were required to earn a living."[2] The incapacitated were sometimes provided almshouses, or otherwise given some minimal aid.

No one at the time of the writing of the Constitution would have associated the life of the poor dependent upon public relief with the word welfare. "Welfare," in common usage for centuries, stems from the roots "well" and "fare", and means basically, according to my dictionary, a "state of faring well; well-being." Synonyms are: "prosperity, success, happiness, weal." No sensible person would have confused poor relief with prosperity, success, or even faring well. Indeed, it was in every respect the opposite.

So far as my researches have revealed, the word, "welfare," began to take on a new connotation around the beginning of the 20th century. The phrase, "welfare-manager," appeared in print in England in 1904. Some factories, it seems, were employing people to assist workers in improving their well-being. Thus, the *London Daily Express* declared in 1916 that "Welfare work tends to improve the condition of life for women and girls employed in factories."[3] However, the word still had no clear connection with relief for the poor.

That connection was made in the United States in the course of the routinization, regularization, and bureaucratization of government aid programs in the 1930s. The key piece of legislation for making this change was the Social Security Act, passed in 1935. There is reason to believe that the adoption of the word "welfare" in place of relief was a more or less deliberate action. It served a highly important political and constitutional purpose. Much of the early New Deal legislation was tied up in court tests by 1934. As it turned out, the central pieces of New Deal legislation were nullified in the next year or so. New Dealers were casting about frantically for ways to overcome the constitutional impasse.

Secretary of Labor Frances Perkins remarked to Supreme Court Justice Harlan Stone, in 1934, that she was worried that the social security system they were devising might not pass the constitutionality test. "The taxing power of the Federal Government, my dear," Stone replied; "the taxing power is sufficient for everything you want and need." This pointed clearly toward the general welfare phrase in the clause of the Constitution authorizing taxation. In the same year Professor E. S. Corwin, a recognized constitutional authority, maintained that the taxing and spending authority of Congress was un-

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checked by the Constitution. Another law professor declared, after the Supreme Court nullified crucial portions of the NRA: "The waters dammed by judicial restriction on the commerce power may break out in unwelcome fields of taxing and spending. What seems a great victory against national regulation may prove to be a Pyrrhic one."[4]

Indeed, it did. The Social Security Act leaned heavily upon the general welfare phrase in the Constitution. It opens with the claim that it is "An Act to provide for the *general welfare* by establishing a system of Federal old-age benefits, and by enabling the several States to make more adequate provision for aged persons, blind persons, dependent and crippled children, maternal and child welfare, public health, and the administration of their unemployment compensation laws. . . ."[5]

Social Security Involves a Bundle of Programs

Since many people may not think of Social Security as a welfare measure, it may be well to emphasize that, however old age benefits—the phrase then used to describe Social Security payments to the retired—should be classified, there was a bundle of programs provided in the act which formed the core of the welfare programs. The bundle included such things as pensions to those who had not contributed to Social Security and aid to dependent children, among others.

Moreover, these programs were administered in the states by what generally became known as welfare departments in the 1940s and 1950s. Frequently, they were formally titled, Department of Public Welfare (DPW), and those who administered the programs were referred to as welfare workers. In 1953, an assortment of these programs were moved into the new cabinet ranked Department of Health, Education and *Welfare*. In this fashion, the shift from referring to these programs as poor relief to public welfare was completed, and the claim that such government activities were sanctioned by the reference in the Constitution to general welfare was linguistically ratified after the fact.

The main point, of course, is that the Founders could not have intended to include what they knew as poor relief in their reference to the general welfare. Poor relief was the last resort of local governments to provide minimal means for survival; it was at the opposite end of the scale from faring well. Beyond that, the evidence presented here points toward the conclusion that as late as the early 1930s it took a great deal of straining to make the beginnings of an identification between relief and welfare.

But there is much more involved in this claim that the federal gov-

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ernment is constitutionally authorized to provide for the general welfare than such programs as have been identified, however spuriously, with welfare. The whole concatenation of redistributionist and interventionist programs which comprise the welfare state find their main justification under it. Thus, we are brought back to the consideration of the claim regardless of what meanings may be attached to the word welfare.

The crucial question then becomes whether or not there is a grant of power in the Constitution to provide for the general welfare. There are at least two approaches that can be taken to answering this question. One is to try to discern the meaning of the phrase, "general welfare," in the clause in which it occurs. The other is to see the clause within the context of the whole Constitution.

The Taxing Power

First, then, let us look at the clause again, which reads: "The Congress shall have Power to lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States. . . ." One thing is certain: Congress is authorized to levy taxes. Is it authorized to do anything else? My view is that it is not. What follows the word "Excises" is restrictive rather than being a grant of powers, restrictive of the taxing power. The operative words, in my reading of the relevant parts, would be that taxes are to be levied to "provide for the *common* Defence and *general* Welfare of the *United* States."

What was being guarded against by these restrictions was the levying of taxes on the whole people to pay for some benefit to some locale, state, or region of the country. For example, by this reading, taxes could not be properly levied to pay for an undertaking such as the Tennessee Valley Authority. There was a definite interest in the Constitutional Convention to restrict such practices. At one point, Benjamin Franklin proposed that the general government be given "a power to provide for cutting canals where deemed necessary." Roger Sherman "objected. The expence in such cases will fall on the U. States, and the benefit accrue to the places where the canals may be cut."[6] Franklin's motion was defeated by a vote of 8 states to 3.

But let me hasten to add that there is no way to make certain that my interpretation of the words as being restrictive is correct simply by reading the clause and selecting emphases within it. Furthermore, even if it were restrictive to the *general* welfare, there might still remain a potentially broad power to provide for the general welfare. After all, in ordinary usage the granting of the power to pay for something tacitly

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authorizes the buying of it. For example, if I tell my daughter that she may write checks to pay for her college expenses, it is a logical inference that I am authorizing such expenses. The same might be expected to apply to statements in the Constitution. To see that they do not it is necessary to place the clause thus far examined in the context of the whole Constitution. Phrases and clauses that may appear to be vague and general when considered in isolation take on much more precision when viewed from the angle of the whole.

A Limited Government

The Constitution of the United States is no ordinary set of statements or document. It is, if not unique, a very special case among documents. It describes the form for and grants power to a limited government. There are no omnibus grants of power in the Constitution; every power granted is limited in one or more and usually several ways (though not necessarily in the clause that grants it). It does not grant the powers of government generally to the United States government.

What makes the Constitution almost unique is that the government it authorizes has only such powers as are granted to it. Thus, what can be inferred from ordinary speech or, for that matter, the general run of legal documents, is no guide in construing the provisions of the Constitution. It is concerned with granting and limiting power in an arrangement for which there are few, if any, parallels in ordinary life situations.

It is contrary to the whole tenor of the Constitution that the power to provide for the general welfare should have been granted in the sentence authorizing taxation. The men who drew the Constitution did not assume that by granting the power to tax in order to pay debts that they had authorized indebtedness. On the contrary, the very next sentence authorizes Congress "To borrow Money on the credit of the United States." Nor did they assume that by authorizing taxation to pay for the common defense that they had granted the power to bring into being a military establishment. On the contrary, again, there is a list of powers to accomplish this purpose granted to Congress:

> To define and punish Piracies and Felonies committed on the high Seas and Offences against the Law of Nations:
>
> To declare War, grant letters of Marque and Reprisal, and make Rules concerning Captures on Land and Water;
>
> To raise and support Armies . . .;
>
> To provide and maintain a Navy;
>
> To make Rules for the Gov-

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ernment and Regulation of the land and naval Forces. . . .

If the power to provide for the common defense had been granted in the taxing power, each of these powers would have been implied by it. Such an enumeration of powers would have been redundant. Redundancies are commonplace, of course, in ordinary legal documents nowadays, but the Constitution is remarkably free of them. It is spare, lean, and once stated, repetition of a position is avoided.

Indeed, the powers which the Founders reckoned necessary to the general welfare of the United States are enumerated along with those mentioned above. Among them are the power of Congress to enact uniform laws on bankruptcies, to coin money, to fix standards of weights and measures, to establish post offices and post roads, to give authors and inventors exclusive right for a time to their writings and discoveries, and the like. Undoubtedly, they considered all the powers granted useful or necessary to the general welfare, including the powers of taxation and those for a military establishment. But my point is that the powers granted were enumerated, and those not so enumerated were reserved to the states or to the people.

That did not keep some from claiming or asserting that some object they wanted to achieve by government was provided for in the phrases of the taxation clause, even in the early years of the Republic. The issue came up for President Madison in 1817, when he was presented with a bill for making internal improvements such as roads and canals. He vetoed it on constitutional grounds.

Madison's Interpretation of Enumerated Powers

Madison said, in part, "The legislative powers vested in Congress are specified and enumerated in the eighth section of the first article of the Constitution, and it does not appear that the power proposed to be exercised by the bill is among the enumerated powers. . . ." Regarding the general welfare phrase specifically, he said: "To refer the power in question to the clause 'to provide for the common defense and general welfare' would be contrary to the established and consistent rules of interpretation, as rendering the special and careful enumeration of powers which follow the clause nugatory and improper. Such a view of the Constitution would have the effect of giving to Congress a general power of legislation instead of the defined and limited one hitherto understood to belong to them. . . ."[7]

President Monroe echoed Madison's views, and added some of his own, in vetoing a bill for maintain-

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ing the Cumberland Road in 1822. He denied that Congress had the power to do this. "If the power exist," he said, "it must be either because it has been specifically granted to the United States or that it is incidental to some power which has been granted. If we examine the specific grants of power we do not find it among them, nor is it incidental to any power which has been specifically granted." Among those from which he could not trace the power, he declared, was the clause "to pay the debts and provide for the common defense and general welfare."[8] In an addendum to his veto message, he included this thought: "Have Congress a right to raise and appropriate the money to any and to every purpose according to their will and pleasure? They certainly have not. The Government of the United States is a limited Government, instituted for great national purposes, and for those only."[9]

In sum, then, it is most unlikely that the makers of the Constitution would have chosen the phrase, "general welfare," to authorize the federal government to provide what they understood to be poor relief. It would have violated both their understanding of the meaning of words and the common practice as to what level of government should provide the relief. On the contrary, it appears that relief came to be called welfare to give it a semblance of constitutionality. Indeed, close analysis within the sentence and the context of the Constitution points to the conclusion that the reference "to provide for the general welfare" was the restriction of the taxing power rather than a separate grant of power.

In short, no powers were enumerated granting authority to the federal government either to enact relief measures or to erect what has come to be called a welfare state. Nor is the language of the Constitution especially vague or carelessly general when it is viewed within the context of the whole document. It only appears to be so when wrenched out of context and construed to cover purposes not intended.

—FOOTNOTES—

[1]Curtis P. Nettels, *The Roots of American Civilization* (New York: Appleton-Century-Crofts, 1963), p. 463.

[2]*Ibid.*, p. 462.

[3]This information comes from the *Oxford English Dictionary.*

[4]See Arthur M. Schlesinger, Jr., *The Politics of Upheaval* (Boston: Houghton Mifflin, 1960), pp. 398–99.

[5]Henry S. Commager, *Documents of American History*, vol. II (New York: Appleton-Century-Crofts, 1962), p. 326. Italics added.

[6]Charles C. Tansill, ed., *Formation of the Union of the American States* (Washington: Government Printing Office, 1927), p. 724.

[7]James D. Richardson, ed., *A Compilation of the Messages and Papers of the Presidents*, vol. II (New York: Bureau of National Literature, 1897), pp. 569–70.

[8]*Ibid.*, p. 712.

[9]*Ibid.*, p. 736.

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James Doti

Commare N'Ciuzza and the Loan Shark

I had just purchased an Italian lemonade and was contentedly licking a chunk of lemon peel embedded in the ice as I walked across the intersection of Aberdeen and Taylor. Just then, two black sedans screeched around the corner, and I froze in my tracks as I heard the nerve-shattering sound of guns being fired. The next moment I felt I was being dragged and pulled by someone whose powerful hands were firmly gripped around my shoulder. Several minutes later I was pleased to find I was sitting in the kitchen of the woman who had done the dragging and pulling—Commare N'Ciuzza.

Almost a year earlier I had met and befriended Commare N'Ciuzza. At the time I was a student at a new university that was built on a large portion of an old neighborhood known as "Little Italy." This neighborhood had once served as the melting pot for newly immigrating Italians into Chicago. Those who still lived in the small portion of neighborhood that survived the university's construction looked upon the few students who lived there with a mingling of fear and suspicion. It was only after people noticed my special friendship with Commare N'Ciuzza that I was allowed to take part in the many neighborhood rituals.

One of these rituals included my being allowed to enter the hallowed doors of the Italo-American Lodge Hall (Post #28). The Lodge Hall consisted of a motley assortment of kitchen chairs arranged around an old rattan coffee table that held back

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issues of the *Fra Noi* newspaper. The stark interior, however, belied the heated exchanges that generally involved the relative merits (usually demerits) of the Chicago White Sox and Chicago Cubs. In another important ritual, I felt proud to be invited on Friday nights to join families on their front porches to engage in lively conversations that typically involved comparing the vocal range of Mario Lanza with the old maestro Enrico Caruso.

With the sound of gunfire still ringing in my ears, I sensed the strong taste of Commare N'Ciuzza's homemade Italian wine on my lips and realized that she was maternally treating my shock in the best way she knew how.

"Mangia, Mangia!" she commanded as she brought cookies to the table.

The sight of the familiar "S"-shaped cookies which are intended for wine-dunking calmed my nerves. So, too, did the bountiful supply of food that was accumulating on the table as a result of the rapid-fire trips that Commare N'Ciuzza was making to and from the refrigerator. That is, rapid-fire for someone whose large slippered feet never left the ground but, rather, slid along the floor.

Commare N'Ciuzza was a large woman. I first saw her on my way home from school when she would invariably be sitting with her head out the window and her bosom supported by the windowsill. As a result of her husband's passing ten years earlier, she was still wearing the familiar black Sicilian mourning dress that I noticed adorned many of the older women in the neighborhood. Our friendship was slow to develop. But from the moment she discovered that my mother came from her hometown in Sicily, she decided it was her calling in life to protect and watch over me. With Commare N'Ciuzza, as with most Italians, that meant making sure I was always well fed. In fact, everyone in the neighborhood called her "Commare" (Godmother) because of her strong maternal instincts.

"Mangia, Mangia!" she continued to command as I slowly dunked the "S"-shaped cookies into the wine.

Big Jake

When she noticed my still frozen white countenance, she said, "Figgiu mio, don't-a be scared. That's-a only Big-a Jake and his-a boys. They come-a to collect-a their money."

She went on to explain that Big Jake, the local loan shark, had recently loaned money to a family that everyone in the neighborhood (I never found out why) called gypsies. She shrugged in a characteristic Italian way as she said, "They buy-a car but they don't-a pay so Big-a Jake come-a to scare them."

When I began to deride Commare N'Ciuzza for accepting the likes of

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Big Jake as a normal part of neighborhood, she interrupted me before I could complete my harangue.

"Don't-a say bad things about Big-a Jake. He's-a good-a man. I light-a candle for him on-a Sundays."

The high regard that Commare N'Ciuzza evidently held for Big Jake aroused my interest. When I began to ask her more direct questions about her association with him I noticed she looked over me in silence, obviously pleased with the interest she had succeeded in arousing.

"Mangia, Mangia!" she continued as her latest sortie to the refrigerator resulted in an unfamiliar eggplant dish being set in front of me.

When I asked her, pleadingly, to get on with the story, I half-expected to hear a story that would prove beyond all doubt the noble intentions of Big Jake. Her story, however, did little to romanticize him.

It all happened thirty years earlier during the worst part of the Great Depression. Commare N'Ciuzza, her husband Tony and their five children were renting a small apartment. But when Commare N'Ciuzza's three year old son urinated on one of the landlord's pepper plants, a fierce battle ensued and the upshot was that Commare N'Ciuzza and her family were ordered to leave.

With Tony out of a job and Commare N'Ciuzza just able to make ends meet with her work as a seamstress, the family had no place to go. But with a loan from Big Jake, they were able to buy the house where she still lived.

When I asked her how she was able to make payments to Big Jake, she replied, "We rent-a bedroom in-a my house and my Tony he find-a work. Big-a Jake we pay-off in-a two years."

When I asked why she didn't go to a bank for the money, she smiled at my naiveté and said, "Figgiu mio, you think-a the banks are gonna give-a money when my Tony no have-a job. They don't-a even give money to my-a brother Salvatore and he works-a for the city."

But could she accept the shooting—the unrelenting pressure that must have sent chills through the hearts of people who just could not pay? When I put this question to her, she could only shrug and remind me that I had stopped eating.

Commare N'Ciuzza was bringing more food to the table as I got up to leave. The only strategy that worked at this point was to leave as quickly as possible. As I turned to thank her, I heard her mutter something in Italian about how the youth of today were all too thin and undernourished.

On the way home I was startled to see the head of the "gypsy" clan, Rocco, happily engaged in washing his newly purchased used '58 DeSoto. When I asked him if every-

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thing was OK he smiled and said, "Sure, I forget-a to pay, but Big-a Jake remind-a me. I pay him, and now Big Jake he's-a happy."

When I asked him how he was going to continue making the payments, he said having a car would make it possible for him to drive to work in the suburbs where his brother-in-law had just bought a pizza parlor.

I tried to question him further about his dealings with Big Jake but it was difficult to get his attention away from the DeSoto. As he worked feverishly on polishing a large strip of chrome, I noticed the proud and satisfied look on his face that so distinguishes a new car purchaser from the rest of humanity. Not wishing to disturb him from his euphoria, I quietly walked away. As I left, I noticed he was happily applying a Brillo pad to the three-inch whitewalls that adorned his tires.

Principles of Economics

I always relate a shortened version of this story to my principles classes in economics when I discuss the determination of interest rates in a free market. As with other goods, the price of loanable funds is determined by supply and demand. A simple analysis of the supply and demand of loanable funds in a free market, however, offers no economic rationale for the illegal operations practiced by Big Jake. When interest rates are allowed to reach their natural levels, the demand and supply of loanable funds will be equal. Of course, higher interest rates will be necessary for those loans that involve greater risk—otherwise, loanable funds will not be supplied to high-risk borrowers.

Thus, we should not expect to see a single determined market rate of interest but, rather, a variety of interest rates that depend on the specific circumstances and, in particular, on the risks associated with various loans. This description of capital markets, however, suggests that high-risk loan candidates like a Commare N'Ciuzza or Rocco would be able to obtain legal loans in the free market if they were willing to pay the market-determined price. What, then, explains the existence of illegal loan operations?

By and large, the Big Jakes of this world are created as a result of governmental policies that take the form of usury laws (ceilings on the maximum interest rate that can be legally charged). Such laws serve to cut off the supply of loanable funds to high risk borrowers by making it legally impossible to compensate lenders for the added risks they assume when granting such loans.

Contempt for lenders in general and in particular for lenders-of-last-resort has a long historical tradition. This is evidenced by the fact that usury laws have been enacted

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throughout most of recorded history. The rationale for such laws can be found in many scholarly works, including the writings of Aristotle and Thomas Aquinas and the Bible.

Protestations against "lending at usury" are even found in the unlikeliest place of all—*The Wealth of Nations*. Adam Smith contradicts his basic belief in the efficacy of the free market when he states:

> In countries where interest is permitted, the law, in order to prevent the extortion of usury, generally fixes the highest rate which can be taken without incurring a penalty. . . . The legal rate, it is to be observed, though it ought to be somewhat above, ought not to be much above the lowest market rate. If the legal rate of interest in Great Britain, for example, was fixed so high as eight or ten per cent, the greater part of the money which was to be lent, would be lent to prodigals and projectors, who alone would be willing to give this high interest. Sober people, who will give for the use of money no more than a part of what they are likely to make by the use of it, would not venture into the competition. A great part of the capital of the country would thus be kept out of the hands which were most likely to make a profitable and advantageous use of it, and thrown into those which were most likely to waste and destroy it. Where the legal rate of interest, on the contrary, is fixed but a very little above the lowest market rate, sober people are universally preferred, as borrowers, to prodigals and projectors. The person who lends money gets nearly as much interest from the former as he dares to take from the latter, and his money is much safer in the hands of the one set of people, than in those of the other. A great part of the capital of the country is thus thrown into the hands in which it is most likely to be employed with advantage. (The Modern Library edition, pp. 339–40.)

But setting the maximum interest rate that can be charged to "very little above the lowest market rate" would preclude the granting of loans to those individuals and businesses that entail a greater degree of risk. Rather than preventing the lending of capital to "prodigals and projectors," usury laws would prevent or, at least, make it legally difficult to lend to high-risk borrowers—generally low-income individuals.

Laws Against the Poor

Even though the most noble intentions may be behind the existence of usury laws, their impact is to take away alternatives and eliminate legal options that lower-income individuals can use to succeed in the marketplace. How can people be better off when such legal alternatives are taken away?

It should be noted that the inequitable and inefficient aspects of usury laws also apply to the ceilings that governmental agencies place on the interest rates that financial institutions are allowed to pay on deposits. Such deposits can be interpreted as loans that savers have

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extended to financial institutions. To be sure, the deregulation of financial markets in recent years has helped savers receive a more competitive return. But because of delays in the deregulation process, many kinds of deposits, particularly those below a specified minimum balance, are still subject to interest rate ceilings. As a result, depositors who have lower checking and savings account balances (usually lower-income families and individuals) are receiving a less than competitive return.

Perhaps Commare N'Ciuzza was able to understand all of this in observing life outside her kitchen window. I tend to think, though, that it was her good common sense and the practical impact that such laws have on the most disadvantaged that allowed her to understand something that has eluded even the greatest of scholars.

The impact of usury laws, however, cuts far deeper than discriminating against the poor and disadvantaged. This is something even Commare N'Ciuzza did not fully understand. The fact that illegal loan markets develop in free markets to get around the restrictive impact of usury laws does not mean that an efficient market solution is achieved in spite of the existence of usury laws. Illegal loans are unenforcible in our courts, and since more expensive and morally intolerable methods of enforcement are applied, Big Jake's interest rates are higher than would have occurred if market-determination rates were allowed.

Adam Smith seemed to sense this in the following statement:

> In some countries the interest of money has been prohibited by law. But as something can every-where be made by the use of money, something ought everywhere to be paid for the use of it. This regulation, instead of preventing, has been found from experience to increase the evil of usury; the debtor being obliged to pay, not only for the use of the money, but for the risk which his creditor runs by accepting a compensation for that use. He is obliged, if one may say so, to insure his creditor from the penalties of usury. . . . If this legal rate should be fixed below the lowest market rate, the effects of this fixation must be nearly the same as those of a total prohibition of interest. The creditor will not lend his money for less than the use of it is worth, and the debtor must pay him for the risk which he runs by accepting the full value of that use. If it is fixed precisely at the lowest market price, it ruins with honest people, who respect the laws of their country, the credit of all those who cannot give the very best security, and obliges them to have recourse to exorbitant usurers.(p.339.)

Thus, the gun-toting tactics of Big Jake that Commare N'Ciuzza could only shrug over result from laws that place a ceiling on the legal interest rate that can be charged. Big Jake had no legal recourse in enforcing his contract. As a result, the most

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abhorrent aspects of loan-sharking—the tactics that caused my momentary fright on Aberdeen Street—take place because of laws that make market-determined interest rates illegal.

Several years ago I returned to "Little Italy." Commare N'Ciuzza was gone, of course, and even her home was replaced by a new residence that took on a Spanish motif but had a strange contemporary look about it. The bespectacled professor who answered the door of the residence had never heard of Commare N'Ciuzza.

Even the Lodge Hall was taken over by a new "greenbelt" park. As far as I could figure, a statue of Garibaldi stood on the spot where lodge members spent countless hours arguing sports trivia.

Asking around, I found that the Lodge Hall had been moved to a room in the newly constructed Senior Citizens' Center. When I got there, I found a brightly painted and spaciously furnished room with the latest issues of *Time, Newsweek* and the *Chicago Tribune,* but no *Fra Noi.* I also noticed that no one was there.

On my way out of the building I heard an elderly man ask his companion, "Did your son-in-law get-a good rate from Big-a Jake?"

"No, he go to First-a Federal and-a do better."

Well, at least Big Jake is still around. But now even Big Jake has competition.

IDEAS ON LIBERTY

The Only Sound Policy

WHAT elevates the wage rates paid to the American workers above the rates paid in foreign countries is the fact that the investment of capital per worker is in this country higher than abroad. Saving, the accumulation of capital, has created and preserved up to now the high standard of living of the average American employee.

All the methods by which the federal government and the governments of the states, the political parties, and the unions are trying to improve the conditions of people anxious to earn wages and salaries are not only vain but directly pernicious. There is only one kind of policy that can effectively benefit the employees, namely, a policy that refrains from putting any obstacles in the way of further saving and accumulation of capital.

LUDWIG VON MISES, "The Economic Role of Saving and Capital Goods"

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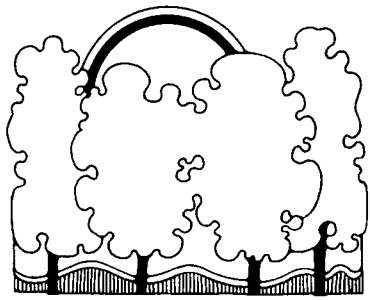
Dennis L. Peterson

The Importance of the Obvious



JUNIOR HIGH and high school students are having an increasingly difficult time understanding our economy. They are constantly surrounded by talk of the complexities and problems of the economies of the United States and the other leading nations of the world. Confusing terms are bounced over their heads in such a manner that they wonder if even their users understand them. With all the seeming chaos, they fail to realize why our nation has become such an economic success.

Calvin Coolidge said, "If all the folks . . . would do the few simple things they know they ought to do, most of our big problems would take care of themselves."

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Although this bit of practical wisdom was applied against a backdrop of a variety of national problems, it can be applied as well to the problem of simplifying free market principles for young students of the freedom philosophy. And it never hurts for the older, more astute students to review the basics periodically.

Individual students have at times approached me privately to question some statement or statistic they have read or heard concerning the economy. While there have been several instances in which I have had to honestly answer, "I don't know," I have found that many of their inquiries can be answered by providing them with an obvious, simply-stated principle of the free market philosophy. Six principles have been

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of special significance to their learning.

More Freedom, Less Government

First, the free market philosophy increases the freedom of the individual and limits the role of government.

Socialists look upon society as a herd to be directed by governmental herdsmen with no consideration of the individual. They think society produces and consumes goods. In reality, there is no economic activity of masses but only of individuals.

The freedom philosophy permits the maximum activity of the individual. It allows him to make choices and take risks. It does not promise stability, as does collectivism. Instead, it gives uncertainty, challenge, and opportunity. It permits one to dream and then to attempt making those dreams reality. And, in order to allow this activity, it permits failure as well as success. The dreams which are considered worthwhile become successful in the market; those which are deemed worthless or too costly fail.

Socialism promises what unthinking men desire: equality. But in providing a false equality, it takes away the freedom of the individual. Truly free men are not equal, and equal men are never truly free.

There can be no mixture of these two systems, individualism and collectivism. One cannot be an individualist in one area and a collectivist in another. He is either completely one or completely the other in every aspect.

The free market is social cooperation entered into freely without coercion, i.e., social contract. The freedom philosophy, therefore, necessarily must restrict government to the protection of the life, liberty, and property of the individuals comprising society. Government is to act only as an umpire in the interrelationships of individuals, punishing those who harm or threaten to harm the rights or property of others. It is to insure an atmosphere in which the individual is free to pursue his own desired self-advancement provided he does not in the process harm others.

Henry David Thoreau accented this dual action of the freedom philosophy when he wrote in *Civil Disobedience,* "There will never be a really free and enlightened State until the State comes to recognize the individual as a higher and independent power, from which all its own power and authority are derived, and treats him accordingly."

Whenever government steps beyond this, its legitimate responsibility, it damages the economic and moral well-being of the individual and of the nation. It can do this in a variety of ways, including excessive taxation, restriction of personal freedoms, or regulation of the economy. The best government is the one

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that does not go beyond its protective duties or unduly limit the individual. It teaches the individual to govern himself so that government intervention becomes not only undesirable but also unnecessary.

Reward for Achievement

Second, the free market philosophy rewards the work ethic.

In Bible times, the apostle Paul commanded that "if any would not work, neither should he eat" (II Thes. 3:10). This principle was transplanted to America and applied by John Smith in Jamestown. As a result, the colony overcame its difficult first years and prospered.

The free enterprise philosophy offers the prospect of economic success for those who are willing to toil and exert themselves in lawful pursuits. They are free to attempt putting their dreams and ideas into practice and to succeed or fail. Opportunity, not special privilege, is the watchword of the entire system.

Workers in a planned economy, however, are mere cogs in the intermeshing of governmental gears, striving for a bureaucratic utopia without the incentives of freedom or personal advancement of self-satisfaction.

Free enterprise rewards the worker who exhibits initiative and industry. Workers who give a good day's work are rewarded with a mutually acceptable day's wages. Those who shirk or loaf are soon forced out of their jobs by the more enthusiastic workers. The hard workers are further rewarded with bonuses, promotions, and raises to the degree they excel or produce. As one wise person put it, the worker who never does more than he is paid for never gets paid for more than he does.

In a truly free market, unemployment is strictly a voluntary condition. Those who want employment can have it—provided they are willing to work for the wages the market is willing to pay and provided they can supply the goods and/or services the market demands. There is always a job for one who is willing to work for what the market determines he and his product or services are worth.

Thrift Encouraged

Third, the free market philosophy encourages thrift.

The door of economic success swings on the hinges of thrift, the wise use of capital. The individual who is master of his money and resources succeeds; he who is mastered by them fails.

Andrew Carnegie, one of the wealthiest capitalists of the late nineteenth and early twentieth centuries, said, "The man should always be the master. He should keep money in the position of a useful servant; he must never let it be his master and make a miser of him."

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Thrift may be simply summarized by five imperatives.

1. *Spend less than you receive.* Calvin Coolidge once said, "There is no dignity quite so impressive, and no independence quite so important, as living within your means." Much of the poverty and economic difficulty of our time could be alleviated if individuals and governments had the courage to say, "No, I can't afford it."

2. *Stay out of debt.* First, one should try not to run up bills. Second, if one cannot avoid debt, he should get out of it again as quickly as possible. A man in debt is not his own master; he is at the mercy of his creditors until his debts are paid in full.

3. *Never spend anticipated income before it is actually received.* In more quaint terms, "Don't count your chickens before they're hatched!"

4. *Keep a regular and accurate account of all receipts and expenditures.* Such record-keeping readily reveals unwise or unprofitable spending. It also shows the importance of little expenditures to the whole. It insures wise and orderly expenditures and produces a visible and encouraging record of income. The record-keeping should in time develop into a wise budgeting system.

5. *Make every effort to save some of every amount received.* "I should say to young men," Carnegie advised, "no matter how little it may be possible to save, save that little." It is from such savings that investment is possible for the development of businesses which produce the goods and services needed and desired in the marketplace. It is from such savings that charity is possible for the assistance of those less fortunate than ourselves.

Philanthropy Increased

Fourth, the free market philosophy encourages philanthropy, the caring for the less fortunate and the rewarding of worthy causes by those who are successful. Charity is the giving of one's own goods to another in need out of the generous desire of one's own heart, i.e., by voluntary contribution. It is not government-coerced funding for the support of others.

To the extent that freedom is permitted in the marketplace, philanthropy increases, for greater successes in the marketplace mean more help for those who are unable to help themselves. Contrariwise, to the extent that government restricts freedom in the market, philanthropy decreases, and those unfortunate, needy others suffer.

Charity and philanthropy are the duties of private individuals, groups, and churches, not of government. The Bible commands families to care for their own needs and for the churches to care for those who have no families. "But if any provide not for his

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own, and specially for those of his own house, he hath denied the faith, and is worse than an infidel" (I Timothy 5:8).

A list of the world's great philanthropists sounds like a list from *Who's Who in Capitalism:* Philip Armour of the meat industry; Andrew Carnegie, steel magnate; E. I. DuPont de Nemours, chemical manufacturer; Henry Ford, automobile manufacturer; J. P. Morgan, financier; John Wanamaker, department store pioneer. The list could go on and on. These men were able to give vast sums to worthy causes only because the free market permitted them to earn even greater sums. Each of them forgot himself for a while in order to remember others, and practically everyone in the nation now remembers their generosity.

In the area of social welfare, as in all other areas of the free market, government only assumes this familial and religious duty in direct proportion to the degree this obligation is first abdicated by those to whom it legitimately belongs.

Moral Attitudes

Fifth, the free market philosophy thrives or founders according to the moral and spiritual condition of the individuals comprising that market. Their moral and spiritual outlook determines the nation's economic outlook. As the evangelist D. L. Moody once said, "Nations are only collections of individuals, and what is true in regard to the character is always true of the whole."

Free enterprise encourages, in fact demands, adherence to the Golden Rule: "Whatsoever ye would that men should do to you, do ye even so to them" (Matthew 7:12). So long as men follow this simple but profound truth, freedom, peace, and prosperity abound. Only when some attempt to force, by government authority, their own desires on the rest do slavery and turmoil occur. When men are bad, society is bad. With such disruption of the market comes economic decline.

Alexis de Tocqueville tried to find the secret of America's greatness, searching diligently in the fields, in the schools, and in the halls of government. But he concluded those places, though great, did not hold the key to America's greatness. Not until he observed the moral strength of her citizens, derived from their religious principles, did he understand fully the cause of the nation's greatness. "America is great because America is good," he said. "When America ceases to be good, America will cease to be great."

Part of a nation's moral standing is determined by whether its citizens have the courage to do what is right regardless of the trends around them. The people with a sound moral condition will have an indestructi-

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ble confidence in the ability of truth to triumph over error, good over evil. When men lose this faith in God, they inevitably lose their liberty, for God is the Author of liberty.

"Americans," Calvin Coolidge reminded us, "have not fully realized their ideals. There are imperfections. But the ideal is right. It is everlastingly right. What our country needs is the moral power to hold to it."

Abiding Principles of Success in the Free Market

Finally, the principles of economic success in the free market are the same regardless of the size of the operation, be it a single individual, a family, a multinational corporation, or an entire nation. Statistics and conditions may frequently change, but principles remain forever the same.

Collectivist bureaucrats would have us believe that economics is a field larger than the common man, an area into which only the experts dare enter. With their array of charts, graphs, and frightening terms and statistics, they quickly convince many that this is exactly the case. What they themselves fail to understand, however, is that economics is, at the lowest level, merely individual human actions, choices and decisions made in the marketplace of goods, services, and ideas.

The common man is deeply involved in the economy on a daily basis. He decides to work or not to work. He chooses to buy or sell or not to buy or sell. He makes trade-offs based on his own needs, wants, and resources. He takes risks. He succeeds or fails. Multiplied several million times all across the nation, this makes up the bulk of economic action in our country. Granted, much influence is exerted on the economy by large corporations, wealthy capitalists, special interest groups, and even governments. But the principles of the free market are always the same regardless of who is involved.

If the free market philosophy was successful, correct, and good in the developmental stages of our nation's history, it remains so even today. If it has worked for America, it will also be practical and successful when applied to other nations.

The free market philosophy, regardless of where applied, is successful because of simple, obvious principles like the ones briefly examined above. The greatest complexities occur whenever these principles are ignored or forgotten. One cannot overemphasize the importance of the obvious.

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Political Economy and Freedom

BEFORE his untimely death Warren Nutter had made a number of timely contributions to economic thought. But many of them were in the form of comments at conferences, notes made for class lectures at the University of Virginia, speeches at gatherings of the Philadelphia Society and the like, and essays published in journals that were not readily accessible to the general public. Nutter had not been given time to do his own gathering and synthesizing. So we are indeed indebted to the Liberty Press of Indianapolis, and to his widow Jane Couch Nutter, for a first-rate winnowing job that has resulted in a fine posthumous volume, *Political Economy and Freedom: A Collection of Essays* (314 pp., cloth $10.00, paper $5.50), which comes with a foreword by Paul Craig Roberts, one of Ronald Reagan's early supply-side advisers.

From the beginning Warren Nutter insisted on the primacy of microeconomics. In a world in which choosing is done at the margin, Nutter thought it self-defeating to depend on Keynesian central planning. When transactions are made in the millions, there is no way of arbitrarily setting wages and prices, or determining quotas, without strangling human ingenuity and dampening incentives of all kinds.

Even so, Nutter knew that economies exist in political frames. The decisions of politicians often play hob with economic choice. So, unlike many of his fellow libertarians, Nutter kept a wary eye on nonmarket forces. Neither the Soviets in Moscow, nor our own interventionist politicos on Capitol Hill, ever took him by surprise. He spent four fruitful years working as an economic and political adviser to the Pentagon, where much of this time was de-

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voted to judging the intentions and capabilities of Soviet leaders who, though they could put their fingers on the most advanced nuclear weapons, had to reckon with a back-up society that was more interested in vodka than in conquest.

In Search of a Cause

The key to Nutter's thinking is supplied in some remarks he made to the National Association of Manufacturers in 1974. "The world," he said, "is bigger than the marketplace, and many valuables are simply not marketable. The concept of the economic man works to explain markets because most people behave that way most of the time. But some behave differently all the time, and all do some of the time. Otherwise, why do we have wars, hot and cold? No theory of social behavior is complete unless it allows for the passion of the mob, the zeal of the martyr, the loyalty of the palace guard, the insatiability of the egomaniac . . . The principal problems of the day are at root not economic but social, ethical, and political. We are people in search of a cause."

Nutter's own cause, as Paul Craig Roberts says, was to ground our economic and foreign policies in "our heritage of freedom." He made a profound study of the structure and growth of Soviet industry. At the same time he conducted parallel studies of growth of government in western societies. He was impressed by the progress of the Russians in their earlier planning periods, when they cleverly combined "knout and honey." But he noted, in a later essay, that "in the Soviet case, industrialization has been pressed forward at the neglect of virtually everything else." Swords had displaced plowshares. "Housing, transportation, agriculture, service trades, and light industry have been left to straggle along on scraps tossed to them from time to time."

A strong West, in Nutter's estimation, would be quite capable of handling the Soviet menace. But, unfortunately, the "unhindered growth of government in societies that have considered themselves free" was sapping western development at the same time the Russians were floundering at home.

John Chamberlain's book reviews have been a regular feature of *The Freeman* since 1950. We are doubly grateful to John and to Henry Regnery for now making available John's autobiography, *A Life with the Printed Word*. Copies of this remarkable account of a man and his times—our times—are available at $12.95 from The Foundation for Economic Education, Irvington-on-Hudson, New York 10533.

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Government Spending

Nutter picked out sixteen countries, all democracies, for special investigation. They were Australia, Austria, Belgium, Canada, Denmark, France, West Germany, Italy, Japan, Luxembourg, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, and the United States. In the early Nineteen Fifties the "median percentage of national income accounted for by government spending in these sixteen countries was around 30 percent. By the mid-1970s, that median had risen to over 50 percent. That is to say, for an average free country in 1950, government was spending about a third of national income. For an average country today, government is spending more than half of the national income."

Nutter was distressed because he saw few signs of a stopping point to the process. He was encouraged by the "possibility of a taxpayers' revolt." He did not live to see the success of Proposition 13 in California.

Writing before Nutter, Colin Clark had laid it down as a dictum that when governments begin to spend more than 25 percent of national income decay was bound to set in. Nutter saw this decay all around him when he reflected on what was happending to property rights. The free society must disappear, he thought, when "the tax claims of government have become so large that a government claim against property begins to be considered a government right to property." It has not taken long, Nutter observed, "for the proponents of big government to turn the principle of private property on its head, maintaining that government is the ultimate owner of property against which the private individual may have a claim, instead of the other way around."

Working for the Pentagon sharpened Nutter's perceptions of the troubles involved in living in a disintegrating world order. He found himself writing essays on the ebb and flow of American foreign policy. Henry Kissinger's conception of detente bothered him. Stripped of rhetoric, he said, Kissinger's detente "amounts to giving the assets away without requiring any strategic benefits in return." Though Kissinger called his policy "creative," Nutter described it as "romantic."

Warren Nutter took an enthusiastic part in the annual meetings of the Mont Pelerin Society. I remember him particularly for his exuberance on some of the Mont Pelerin mid-week field trips. Looking at a palace in the middle of an island in Lake Maggiore in Italy, Nutter pretended he was making notes for the palace he said he would someday build in Virginia. He did not live to build that palace (would it have been a new Monticello?). But he had his fun.

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PINK AND BROWN PEOPLE AND OTHER CONTROVERSIAL ESSAYS
by Thomas Sowell
158 pages ■ $8.95 paperback
AMERICA: A MINORITY VIEWPOINT
by Walter Williams
183 pages ■ $8.95 paperback
(Both books published by the Hoover Institution Press, Stanford University, Stanford, CA 94305, 1982.)

Reviewed by Tommy W. Rogers

DOCTORS Sowell (Senior Fellow at the Hoover Institution) and Williams (professor of economics at George Mason University) are seminal and incisive thinkers and essayists. Each of the above books consists of articles which originally appeared as columns in major newspapers. These terse coherent articles, ranging in subject matter from race, economics, and politics to various social trends and issues, pack the wallop of a wet bag of cement. They provide a compact, revealing, scholarly but readily interpretable analysis of the fads, fallacies, and foibles of the self-anointed elite whose commitment to coerced utopia through the compulsive reach of government threatens the very fabric of our Constitutional system, and of the cultural and economic prosperity which has been possible under that system.

The theory of how the world works underlying the thought of doctors Sowell and Williams is what they term a "vision of social processes." This viewpoint recognizes that perfection is precluded by the realities of the human condition, and that the most feasible adjustment to the human condition is through the family, Constitution, market, and the traditions of freedom. This perspective contrasts with the "vision of the anointed" who perceive the world as a place wherein perfection can be achieved if mankind can be persuaded, tricked, or coerced into adopting their elitist version of virtue and wisdom. The "anointed" feel that they have advanced beyond reactionary and conservative mythologies, and that their enlightenment and messianism is the route to salvation. The institutions of freedom to which defenders of the "vision of social processes" pay homage are major obstacles to the implementation of the vision of the "anointed" messiahs in academia, government, and media.

Doctors Sowell and Williams feel that the American public has allowed itself to be duped by the political medicine men of quick fixes, fine tuning, collectivization, plus such will-o-the-wisps as perfect justice, affirmative redress, and "equal opportunity." The authors combine knowledge, understanding, research, and valid insight with consummate literary skill, all derived

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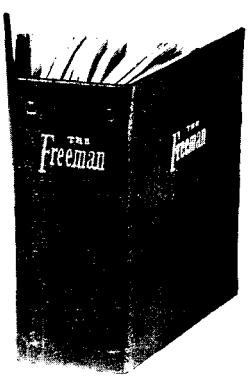
from a firm philosophical footing. The result is a merciless dissection of the pious hokum and cant which underlie much of the respectable but illusory and disastrous public policy notions of our time.

The moral appeal of the "vision of the anointed" is understandable and interpretable, but much of its success is due to the public's willingness to fulfill Barnum's jibe about suckers. Generally, the victim of con games has a streak of larceny himself and contributes to his own fleecing. Thus the elite and "the public" feed on each other.

Ideas, beliefs, and perspectives have consequences. History, to a large degree, is the outworking, the denouement in time and space, of the ideas by which men live. Doctors Sowell and Williams are premier spokesmen for the vision of freedom, and the prosperity which freedom makes possible. These two volumes of essays from their deft pens make for reading which is both incisive and instructive.



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